Office - Supreme Court, U.S.
FILED
JUN 2 1982
ALEXANDER L. STEVAS,
CLERK

81-2234

No. _____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

ACME QUILTING CO., INC.,

Petitioner,

v.

PERFECT FIT INDUSTRIES, INC.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

HERBERT MONTE LEVY
Attorney for Petitioner

Suite 1800
18 East 41 Street
New York, New York 10017
(212) 889-4985

(12427)

QUESTIONS PRESENTED FOR REVIEW

1. When a defendant has deliberately created a trade dress similar to plaintiff's, is the plaintiff entitled to injunctive relief in the total absence of showings of actual confusion and secondary meaning?

2. When a defendant has disseminated trade dress materials in reliance upon the ruling of a District Court of the United States that the plaintiff had not proven actual confusion or secondary meaning and hence was not entitled to injunctive relief, may that District Court, upon reversal and remand by the appellate court, require the recall of all the said materials?

3. Upon a finding of contempt of the order directing the recall, may a District Court properly impose a contingent fine of $5,000 for each day subsequent to the new deadline for compliance, based upon sales volume but not upon net profit, the per diem fine being more than ten times the defendant's daily net profit?

PARTIES TO THE PROCEEDING

The caption of the case in this Court contains the names of all parties. Petitioner has no parent companies or subsidiaries, but does have the following affiliates: Tunica Manufacturing Company, Inc.; Hanover Industries, Inc.; GRY Hanover Corporation; GRY Tunica Corporation; The Factory Store, Inc.; Acme of California; and The Bedspread Warehouse.

TABLE OF CONTENTS

	PAGE
QUESTIONS PRESENTED FOR REVIEW	i
PARTIES TO THE PROCEEDING	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	1
JURISDICTION	2
CONSTITUTIONAL PROVISION AND STATUTE INVOLVED	2
STATEMENT OF THE CASE	3
POINT I—SINCE AT THIS WRITING THERE ARE PENDING BEFORE THIS COURT TWO ARGUED CASES INVOLVING THE QUESTION OF WHETHER ALLEGEDLY UNFAIR COMPETITION CAN BE ENJOINED IN THE ABSENCE OF PROOF OF ACTUAL CONFUSION AND SECONDARY MEANING, THIS COURT SHOULD GRANT REVIEW OF THE FIRST JUDGMENT OF THE SECOND CIRCUIT.	5
POINT II—IN RULING THAT THE REMEDY OF RECALL FOR INFRINGING TRADE DRESS, NOT AVAILABLE UNDER STATE LAW, WAS PROPER THOUGH THE INFRINGING MATERIALS HAD BEEN DISSEMINATED WITH THE IMPRIMATEUR OF THE DISTRICT COURT, THE COURT BELOW DECIDED AN IMPORTANT QUESTION OF FEDERAL LAW WHICH HAS NOT BEEN, BUT SHOULD BE, SETTLED BY THIS COURT.	6

PAGE

POINT III—IN RULING THAT A CONTINGENT COERCIVE FINE COULD BE IMPOSED, BASED UPON GROSS SALES, WITHOUT CONSIDERATION OF THE FACT THAT THE FINE WAS TEN TIMES THE NET PROFITS OF THE ALLEGED CONTEMNOR, THE COURT BELOW DECIDED AN IMPORTANT QUESTION OF FEDERAL LAW WHICH HAS NOT BEEN, BUT SHOULD BE, SETTLED BY THIS COURT, IN A WAY IN CONFLICT WITH AN APPLICABLE DECISION OF THIS COURT. 8

POINT IV—THE PENALTY OF A RECALL FOR OBEYING THE LAW, AND THE PENALTY OF A FINE AMOUNTING TO MORE THAN 1000% OF THE NET PROFIT OF THE PETITIONER, VIOLATED DUE PROCESS. 10

CONCLUSION 10

TABLE OF APPENDICES

APPENDIX A—First Opinion and Judgment of Court Below Reversing District Court A1

APPENDIX B—Second Opinion and Judgment of Court Below Upholding Recall and Vacating Fine . A25

APPENDIX C—Third Opinion of Court Below Reinstating Fine A66

APPENDIX D—First District Court Opinion (Reversed in Appendix A) A75

APPENDIX E—Second District Court Order and Opinion Requiring Recall (Affirmed in Appendix B) A95

APPENDIX F—Second District Court Order, Denying Stay A106

APPENDIX G—District Court Contempt Order and Opinion A110

APPENDIX H—District Court Opinion Explaining the Fine A120

TABLE OF AUTHORITIES

	PAGE
Cases	
Cox Broadcasting Corp. v. Cohn, 420 U.S. 469 (1975)	6n
Darby Drug Co., Inc. v. Ives Laboratories, Inc. (No. 81-11)	5
Harris Truck Lines, Inc. v. Cherry Meat Packers, Inc., 371 U.S. 215	8
International Business Machines Corp. v. United States, 493 F. 2d 112, 116 (2d Cir. 1973), cert. denied, 416 U.S. 995 (1974)	8
Inwood Laboratories, Inc. v. Ives Laboratories, Inc. (No. 80-2182)	5
Maternally Yours, Inc. v. Your Maternity Shop, 234 F. 2d 538, 545 (2d Cir. 1956) (Clark, C.J. concurring)	6
New York World's Fair 1939, Inc. v. World's Fair News, 256 App. Div. 373, 10 N.Y.S. 2d 56 (1st Dept. 1939), leave to appeal denied, 280 N.Y. 813 .	7
Thomas J. Valentino, Inc. v. Majar Discs, Inc., 138 N.Y.S. 2d 494 (1955) (not officially reported)	7
Underwriters Laboratories, Inc. v. Harold Smith, 41 M. 2d 756, 246 N.Y.S. 2d 436	6-7
United States v. UMW, 330 U.S. 258, 304 (1947)	8
Statutes:	
Lanham Act, § 43(a), 15 U.S.C. § 1125(a) (1976)	2

IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

ACME QUILTING CO., INC.,

Petitioner,

v.

PERFECT FIT INDUSTRIES, INC.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

OPINIONS BELOW

The opinions delivered upon the rendering of the judgments or decrees by the Second Circuit, whose decisions are sought to be reviewed, are reproduced in the Appendix as Appendices A, B and C respectively. The opinion in Appendix A is reported at 618 F. 2d 950, 205 U.S. P.Q. 297; the opinion in Appendix B is reported at 646 F. 2d 800, 210 U.S. P.Q. 175, 31 F.R. Serv. 2d 882; the opinion in Appendix C is not yet reported.

The original opinion of the District Court, reported at 484 F. Supp. 643 (reversed by opinion in Appendix A), is reproduced as Appendix D. The unreported May 19, 1980 decision of the

District Court upon remand (and annexed order) is reproduced as Appendix E. The second order of the District Court appealed from (no opinion), issued June 19, 1980, unreported, is reproduced as Appendix F; the contempt opinion and order, unreported, are reproduced as Appendix G. The unreported decision of the District Court, rendered in response to the second opinion of the Second Circuit, is reproduced as Appendix H.

JURISDICTION

The judgments sought to be reviewed were dated February 26, 1980 (Appendix A), April 13, 1981 (Appendix B), and March 5, 1982 (Appendix C). No rehearings were sought. The statutory provision believed to confer on this Court jurisdiction to review the judgments and decrees in question by writ of certiorari is 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISION AND STATUTE INVOLVED

U.S. Constitution, Amendment V

No person shall *** be deprived of *** property, without due process of law ***.

Lanham Act, §43(a), 15 U.S.C. §1125(a) (1976)

False designations of origin; false description or representation

(a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person

who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

STATEMENT OF THE CASE

In April 1977, Perfect Fit Industries, Inc. ("Perfect Fit") instituted suit against Acme Quilting Co., Inc. ("Acme"), contending that Acme had, in violation of copyright law, appropriated Perfect Fit's trade dress by imitating its package inserts, called "J-Boards," used by both firms in the marketing of mattress covers. After this claim was dismissed, Perfect Fit filed an amended complaint alleging trade dress infringement, in violation of Section 43(a) of the Lanham Act.

After a trial without a jury, the District Court concluded that Perfect Fit's J-Board was distinctive and memorable, that Acme's J-Board was very similar to it, and that Acme had deliberately copied Perfect Fit's J-Board. However, the District Court refrained from issuing injunctive relief, because no secondary meaning had been proven, no actual confusion had been proven, and there was no attempt at passing off (Appendix D). On appeal, the Second Circuit held that a sufficient likelihood of consumer confusion was enough to warrant a grant of injunctive relief, notwithstanding absence of proof of secondary meaning, of actual confusion, and of passing off. The Second Circuit remanded for entry of an injunctive order prohibiting Acme from using the misappropriated trade dress (Appendix A).

Upon remand, the District Court issued an order on May 19, 1980 (Appendix E), requiring Acme to cease using the offending J-Boards immediately, and directing, *inter alia*, the recall by

Acme from all of its customers within 15 days of all offending J-Boards sent during the period of November 19, 1979 and May 19, 1980. This included changed and redesigned J-Boards which the District Court found confusingly similar to those which had been before the Second Circuit. Though having knowledge of the existence of an order on or about May 21, 1980, Acme did not know the actual contents of such order until June 3, 1980. On June 24, 1980, the District Court held Acme in civil contempt, directing that the recall letters be mailed by June 27, and that the offending J-Boards be surrendered, imposing a contingent fine of $5,000 for each day subsequent to the new deadline for non-compliance with the Court's injunctive order. The District Court set forth no basis whatsoever as to why the fine imposed had been set at the rate of $5,000 per day. (Appendix G).

Acme appealed to the Second Circuit from both the injunctive and contempt orders. The injunctive and contempt orders were affirmed, but the fine was vacated, and the matter was remanded directing the District Court to explain the basis and purpose of the fine, so that the Court of Appeals could review Acme's contention that the amount was arbitrary, retaining jurisdiction to review the fine following the District Court's explanation. (Appendix B).

The District Court ruled that the intent of the order was to prevent additional future damage to the plaintiff, without intention to compensate plaintiff, that Acme's non-compliance was deliberate and willfull, and that compliance with the injunctive orders could be achieved only through economic sanction.

The District Court then noted it had relied upon the factor that Acme was a sizeable company with pre-1980 sales exceeding 20 million dollars per year, and concluded that a contingent fine of $5,000 per day would not be confiscatory. The District Court ignored the fact that Acme's daily net profit, quite apart from the gross, before taxes, was less than $500 per day. (Appendix H).

The Second Circuit thereupon upheld the $5,000 per day fine, ruling that it cannot conclude that the fine was confiscatory simply because Acme's daily profits were modest. (Appendix C).

POINT I

SINCE AT THIS WRITING THERE ARE PENDING BEFORE THIS COURT TWO ARGUED CASES INVOLVING THE QUESTION OF WHETHER ALLEGEDLY UNFAIR COMPETITION CAN BE ENJOINED IN THE ABSENCE OF PROOF OF ACTUAL CONFUSION AND SECONDARY MEANING, THIS COURT SHOULD GRANT REVIEW OF THE FIRST JUDGMENT OF THE SECOND CIRCUIT.

It is the understanding of counsel that two cases before this Court, both of which have been argued (February 22, 1982) and are awaiting decision, involve the questions of whether an injunction can issue in an unfair competition case in the absence of proof of secondary meaning, and in the absence of proof of actual confusion. Such cases are:

No. 80-2182, *Inwood Laboratories, Inc.* v *Ives Laboratories, Inc.*

No. 81-11, *Darby Drug Co., Inc.* v *Ives Laboratories, Inc.*

It would therefore seem unnecessary to argue the importance of this federal issue. We urge that, on this aspect of the case, this Court either grant certiorari so that we may brief the case on the merits, or else that it postpone consideration of certiorari until after decision in the above named two cases.

We note, further, that since the order of the Court of Appeals found in Appendix A remanded to the District Court, it was not a final decision, and that it therefore became appealable only upon the final decision of March 5, 1982 upholding the contingent contempt fine.[1]

---

[1] There is presently pending in the District Court an application by Perfect Fit to enforce the fine, which the parties are attempting to amicably resolve by the use of independent auditors checking the books and records of Acme. A conference is scheduled with Chief Judge Motley of the District Court in this matter for August 13, 1982. If this Court believes that the judgment is still not final in the light of these pending proceedings, we ask that decision whether to grant certiorari be postponed until final determination of the controversy in the District Court. While we now may be met by the contention that our

Respondent may argue that since the decision below rests on New York law, this Court's decision in the *Ives* cases may not be determinative here. However, respondent here sought relief only under the Lanham Act; should it have no remedy thereunder, there would be no pendent jurisdiction under which an injunction could be sustained, there being no true diversity of citizenship, and hence no basis for jurisdiction in the courts below.

In any event, though the Second Circuit purportedly relied upon New York law, its analysis rested almost entirely upon federal cases (see *infra*, A14-A22). The federal and state cases in this area of law have built upon each other, and New York State law has not presumed to depart from federal law in the area of unfair competition. As Perfect Fit itself wrote below, "As Acme acknowledges, whether federal or state law governs, the end result is the same.*** *Maternally Yours, Inc.* v *Your Maternity Shop*, 234 F.2d 538, 545 (2d Cir. 1956) (Clark, C.J. concurring)***." Brief for Appellee, p. 17. New York State law requires a finding for petitioner, as clearly appears from Judge Motley's analysis of the state cases (A90-A94).

POINT II

IN RULING THAT THE REMEDY OF RECALL FOR INFRINGING TRADE DRESS, NOT AVAILABLE UNDER STATE LAW, WAS PROPER THOUGH THE INFRINGING MATERIALS HAD BEEN DISSEMINATED WITH THE IMPRIMATEUR OF THE DISTRICT COURT, THE COURT BELOW DECIDED AN IMPORTANT QUESTION OF FEDERAL LAW WHICH HAS NOT BEEN, BUT SHOULD BE, SETTLED BY THIS COURT.

It is clear that mandatory relief, under New York law, *never* includes a recall. For example, in *Underwriters' Laboratories*,

---

application for certiorari is premature, we realize that we might also be met by the contention that it would be too late if we delayed until the final resolution of the contempt issue. Cf. *Cox Broadcasting Corp.* v *Cohn*, 420 U.S. 469 (1975).

Inc. v *Harold Smith*, 41 M. 2d 756,246 N.Y.S. 2d 436, defendant was directed to turn over counterfeit labels—but there was no order requiring it to recall previously disseminated labels. And, though mandatory relief was ordered in *New York World's Fair 1939, Inc.* v *World's Fair News*, 256 App. Div. 373, 10 N.Y.S. 2d 56 (1st Dept. 1939), leave to appeal denied, 280 N.Y. 813, no recall was ordered despite the "utter lack of good faith on the part of defendants," and despite a prior adjudication of unfair competition. (256 App. Div. at 375).

The New York Courts, far from ordering recalls, specifically permit the defendant to dispose of its then present supply of infringing materials. *E.g., Thomas J. Valentino, Inc.* v *Major Discs, Inc.*, 138 N.Y.S. 2d 494 (1955) (not officially reported).

The Second Circuit held that a federal court may fashion equitable remedies not available under state law. Even if the Second Circuit be correct, it seems apparent that, at the very least, the District Court may not fashion an inequitable remedy penalizing the defendant for acting in accordance with the District Court's order in the very same case. Acme, in the case at bar, had acted in good faith reliance upon the judgment of the District Court, holding that it had not been guilty of unfair competition in the dissemination of what the Second Circuit only later found to be an infringing trade dress. There was never even any suggestion that Acme disseminated infringing inserts after it learned of their illegality, for the first time, in the February 26, 1980 decision of the Second Circuit, reversing District Judge Motley's judgment that defendant had acted legally. In no case whatsoever has any Court whatsoever ever required a recall where defendant has acted in good faith reliance upon the judgment of a court finding that it had not been guilty of unfair competition. Acme had acted in complete good faith, and yet the fashioned "equitable" remedy inequitably penalized it for the very actions which had been authorized by the District Court. One should not be penalized, or even given harsh treatment, when he has abided by the order of a Court.

In so deciding, the Second Circuit has ruled in a way in conflict with a prior decision of this Court, in which this Court

has waived even jurisdictional defects where the jurisdictional defect is due to reliance upon a Court order. Thus, this Court has held that the time to appeal is suspended by orders on untimely motions when a party assumes in reliance on the trial court that its period in which to file an appeal was extended. *Harris Truck Lines, Inc.* v *Cherry Meat Packers, Inc.*, 371 U.S. 215. Here, Acme relied upon the trial Court in disseminating material. The extraordinary remedy of a recall, nowhere authorized by statute, or by any prior federal appellate court, should not have been ordered where equity certainly militates against the imposition of a severe penalty by a court for doing precisely what the same court had authorized to be done.

POINT III

IN RULING THAT A CONTINGENT COERCIVE FINE COULD BE IMPOSED, BASED UPON GROSS SALES, WITHOUT CONSIDERATION OF THE FACT THAT THE FINE WAS TEN TIMES THE NET PROFITS OF THE ALLEGED CONTEMNOR, THE COURT BELOW DECIDED AN IMPORTANT QUESTION OF FEDERAL LAW WHICH HAS NOT BEEN, BUT SHOULD BE, SETTLED BY THIS COURT, IN A WAY IN CONFLICT WITH AN APPLICABLE DECISION OF THIS COURT.

This Court has ruled in *United States* v *UMW*, 330 U.S. 258,304 (1947) that among the factors to be considered in determining a contingent fine are the "amount of [the contemnor's] financial resources and the consequent seriousness of the burden to [him]." And in *International Business Machines Corp.* v *United States*, 493 F. 2d 112,116 (2d Cir. 1973), *cert. denied*, 416 U.S. 995 (1974), the Court below observed that the burden of the fine (there $150,000 per day) should be considered in relation to the small percentage (5%) that it bore to the defendants' average daily earnings. In the case at bar, the daily fine that was imposed amounted not to 5% of the defendant's

average daily earnings, but to more than 1,000% thereof (before taxes).

The Second Circuit ruled that net profit may be relevant and most useful in determining whether or not a daily fine that is unusually large in absolute amount, such as the $150,000 per day fine imposed in *IBM*, is confiscatory. However, the reason does not appear as to why, when the daily contingent fine is more than 1,000% of net earnings, such figure is not confiscatory. While the Second Circuit opined that adoption of our contention might lead to the conclusion that a coercive fine could never be imposed on a company that was financially troubled, this is not so. The fine should be commensurate with, and take into account, the trouble of a troubled company—not drive it out of business.

Indeed, between the deadline dates in the District Court's order and the order of March 5, 1982, a total of approximately 635 days had elapsed. Were the fine to be imposed now for the entire period, including the time when the fine had been vacated, it would thus be over $3,000,000, for a company making $500 a day.[2] Yet the Second Circuit held that this fine would not be confiscatory.

This Court has never spoken, so far as our research has disclosed, on the propriety of a contingent daily fine which is more than 1,000% of the company's daily earnings. We urge that the decision below was in a way in conflict with this Court's decision in *UMW*—the character and magnitude of the harm threatened in *UMW* was to the nation at large, while the harm threatened here was only *possible* confusion between products

---

[2] Though Acme has made a good faith attempt to comply with the contingent fine order, and has substantially complied therewith, Perfect Fit is seeking to collect the fine because a) the recall letters were postmarked on a Monday, the last day for posting them by certified mail having been the prior Friday, New York City's always-open main Post Office having unexpectedly refused to handle certified mail after 5 p.m. on a Friday, b) recall letters may not have been sent to all branches of department store chains, though the omitted branches returned the J-boards anyhow or otherwise communicated re them to Acme; Acme's computer system may have malfunctioned and two of the stores which should have received the mailed notices may not have been sent the notices, though they returned the J-boards promptly.

of two manufacturers, with no *actual* confusion ever shown. Yet the magnitude of the fine imposed was infinitely higher.

We believe that the question as to whether a fine can be imposed based upon gross volume of sales, without consideration of the net profit thereon, is a question which has not been but should be settled by this Court.

POINT IV

THE PENALTY OF A RECALL FOR OBEYING THE LAW, AND THE PENALTY OF A FINE AMOUNTING TO MORE THAN 1000% OF THE NET PROFIT OF THE PETITIONER, VIOLATED DUE PROCESS.

We urge that the Court ordering a recall of material whose dissemination it had approved deprived petitioner of property without the due process of law required by the Fifth Amendment. We further urge that its subsequent imposition of a contingent coercive fine of more than 1000% of petitioner's net earnings further deprived petitioner of due process. The combination of two such patently unfair rulings in one case was arbitrary and unreasonable, and a double due process violation.

CONCLUSION

FOR ALL OF THE ABOVE REASONS, THE PETITION FOR CERTIORARI SHOULD BE GRANTED.

Respectfully submitted,

HERBERT MONTE LEVY
Attorney for Petitioner

Dated: New York, New York
June 2, 1982

APPENDICES

APPENDIX A

PERFECT FIT INDUSTRIES, INC.,

Plaintiff-Appellant,

v.

ACME QUILTING CO., INC.,

Defendant-Appellee.

No. 155, Docket 79-7329.

United States Court of Appeals,
Second Circuit

Argued Nov. 19, 1979.

Decided Feb. 26, 1980.

Action was brought for infringement of trade dress. The United States District Court for the Southern District of New York, Constance Baker Motley, J., 484 F.Supp. 643, entered judgment for defendant, and plaintiff appealed. The Court of Appeals, Kearse, Circuit Judge, held that plaintiff was not required to prove secondary meaning and that plaintiff was entitled to injunctive relief but not damages.

Affirmed in part, reversed in part and remanded.

Arthur H. Seidel, Philadelphia, Pa. (Roberta L. Jacobs, Seidel, Gonda, Goldhammer & Panitch, P.C., Philadelphia, Pa., Fink, Weinberger, Fredman, Berman & Lowell, P.C., New York City, on brief), for plaintiff-appellant.

John N. Cooper, New York City (Cooper, Dunham, Clark, Griffin & Moran, New York City, on brief), for defendant-appellee.

Before MULLIGAN, MESKILL and KEARSE, Circuit Judges.

KEARSE, Circuit Judge:

Plaintiff Perfect Fit Industries, Inc. ("Perfect Fit") appeals from a judgment of the United States District Court for the Southern District of New York, Constance Baker Motley, Judge, entered for defendant Acme Quilting Co., Inc.

("Acme") after a bench trial, in this action for trade dress infringement brought under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1976), and the New York law of unfair competition. The amended complaint charged that Acme deliberately copied the trade dress which Perfect Fit had created for a new line of mattress pads. The district court agreed that there was deliberate copying, but denied relief on the ground that Perfect Fit had not shown that its trade dress had acquired secondary meaning. Since we conclude that on the facts shown, Perfect Fit was entitled to an injunction under New York law, we reverse in part and remand so that the district court may enter an injunction against further use of the infringing materials.

I

Perfect Fit and Acme have manufac-

tured and sold mattress pads for many years. Until several years ago, two styles of mattress pads were offered: in one style, the padding covered only the top of a mattress, and was to be fastened to the mattress by elasticised anchor bands; the other style was a contour-fitted pad in which, again, the padding covered only the top of the mattress, but was fastened to the mattress by netting on the four sides. These two types were usually packaged for sale in printed plastic bags. In May 1976, Perfect Fit introduced a new type of mattress cover which it called "BedSack," and which was contour-fitted and fully quilted--i.e., the padding covered the top and the four sides of the mattress.

Perfect Fit also designed new packaging for its new product. Instead of the printed bag, it used a clear plastic bag into which was inserted a printed

piece of cardboard, called a J-board. The bottom portion of a J-board bends to a 90-degree angle over the end of the packaged product so that a portion of the board is visible to the prospective purchaser whether the packages are laid end-to-end on a table or stacked on a shelf. The dominant feature of the Bed-Sack J-Board is a "high-fashion" photo-graph of a blonde woman in night clothes, lounging at the head of a bed covered by a BedSack mattress pad. The photograph has a brown background, and is surrounded by an "art deco" frame in silver and gold, with a thin white border between the two colors. At the top of the frame there is a white BedSack logo in distinc-tive type face.

The BedSack was a popular success, and Perfect Fit's sales rose as a result. In the words of Acme's counsel at trial, "The product was hot."

Approximately four months after the BedSack was brought to market, Acme introduced its own contour-fitted, fully-quilted mattress cover, which it called "BedMate."[1] To market its new product Acme, like Perfect Fit, turned to a clear plastic bag with a J-board. The first J-board used by Acme for its BedMate bears a strong resemblance to Perfect Fit's BedSack J-board. It consists of a "high fashion" photograph of a brown-haired woman in night clothes, lounging at the head of a bed covered by a mattress pad. The photograph has a brown background, and has an "art deco" frame in silver and gold, with a thin black border between the two colors.

---

1. Perfect Fit contests the district court's finding that only four months elapsed between the introduction of the two products, arguing that in fact, some seven or eight months had elapsed. Given our disposition of the case, we conclude that the difference is not material.

Just inside the top of the frame appears a white "BedMate" logo, the lettering of which is similar in several respects to that used in the BedSack logo. After using this BedMate J-board for a short time, Acme had the design slightly modified: the brown-haired woman was replaced by a blonde woman, a deeper brown background was used, and the words "The Original" were placed at the top of the "art deco" frame. The net result of these changes to the BedMate J-board was to make its resemblance to the BedSack J-board even more striking.[2]

Perfect Fit commenced suit on April 26, 1977. Its amended complaint, filed October 19, 1977, claimed that Acme's BedMate J-board infringed Perfect Fit's common law rights in its trade dress--specifically, in the BedSack J-

---

2. The bottom of each J-board bore the name of its manufacturer in small print.

board-- and constituted a false designation of origin under § 43(a) of the Lanham Act.[3] Perfect Fit demanded injunctive relief, an accounting, and punitive damages.

At trial, Perfect Fit introduced evidence that Acme had deliberately copied Perfect Fit's J-board. The graphic artist hired by Acme testified, inter alia, that he had initially produced several designs of a J-board, none of which was acceptable to Acme; that an officer of Acme then gave him a Perfect Fit BedSack J-board, whereupon he designed the first BedMate J-board used by Acme;

---

3. Perfect Fit's original complaint raised a single claim of copyright infringement, involving a pattern of quilting which Perfect Fit had developed for its mattress pads. After this claim was dismissed, Perfect Fit filed its amended complaint alleging trade dress infringement.

Perfect Fit does not assert in this proceeding any claim of trademark infringement with respect to its mark BedSack, any claim of copyright infringement with respect to its J-board, or any claim of product simulation with respect to the mattress pads themselves.

that in Acme's view the colors of this first J-board were not quite right, and that he thereupon designed the second J-board adopted by Acme, the colors of which were chosen by Acme and were closer to the colors of Perfect Fit's J-Board; that he selected the type face for the Acme J-board from a book displaying one or two hundred type faces, and that his selection might have been a subconscious reaction to seeing the Perfect Fit J-board.

Perfect Fit also sought to prove that the BedSack J-board had acquired secondary meaning. This proof consisted solely of evidence of BedSack sales and advertising expenditures. No consumer surveys were offered, and no evidence was presented as to any instance in which a consumer actually mistook the BedMate for the BedSack.

After trial, the district court found that Perfect Fit's trade dress was "distinctive and memorable," and that the

BedSack had become "very popular." It also found that Perfect Fit's and Acme's J-boards were "very similar," and "that Acme deliberately copied the insert being used by Perfect Fit." However, the court concluded that secondary meaning was a necessary element of a claim for relief under either § 43(a) or New York law, and found that Perfect Fit had failed to meet its burden of proof on the question of secondary meaning. The district court concluded:

> Since the court finds that Perfect Fit has failed to prove secondary meaning for its tradedress, the court need not reach the question of whether Perfect Fit proved that there was a likelihood of confusion between the two tradedresses.

Thus, the district court entered judgment for Acme. This appeal followed.[4]

---

4. Acme's answer to the amended complaint interposed four counterclaims, which remained pending after the dismissal of the complaint. Despite the fact that the judgment therefore

II

We conclude that under New York law, Perfect Fit was not required to prove secondary meaning in order to obtain relief from Acme's infringing trade dress. We also find that Perfect Fit made a sufficient showing of likelihood of confusion to warrant injunctive relief, but that it did not demonstrate entitlement to any other relief. We do not reach any of the other issues raised by the parties.

Secondary meaning was originally a trademark concept designed to limit the extent to which a manufacturer could monopolize words and symbols that are useful in describing products. The doctrine holds that a descriptive or

---

was not "final," Fed.R.Civ.P. 54(b), so as to permit appeal pursuant to 28 U.S.C. § 1291 (1976), we have jurisdiction to hear the appeal under 28 U.S.C. § 1292(a)(1) (1976) since the judgment denied Perfect Fit's request for injunctive relief.

geographical mark receives protection against copying only if consumers have come to associate it with a particular manufacturer or source. When this association is established and the mark has thus acquired secondary meaning, a second comer is barred from using it because such use is virtually certain to create confusion in the public mind as to the source of the product. See J.T. McCarthy, Trademarks and Unfair Competition § 15.3 (1973).

When a manufacturer employs marks that are not descriptive, however, there is less need to prevent their monopolization, for there is an unlimited number of nonfunctional words and symbols available for use by later comers in the marketing of their products. Similarly, monopolization is not a problem in the realm of trade dress, because the possible varieties of advertising display and packaging

are virtually endless. Thus, in this area New York law has concerned itself principally with whether or not the public is likely to be confused, rather than with whether the first comer's trade dress has acquired secondary meaning. See Feathercombs, Inc. v. Solo Prods. Corp., 306 F .2d 251, 258 (2d Cir.), cert. denied, 371 U.S. 910, 83 S. Ct. 253, 9 L.Ed. 2d 170 (1962); Avon Periodicals Inc. v. Ziff-Davis Publishing Co., 282 App. Div. 200, 122 N.Y.S. 2d 92 (1953), aff'd 27 Misc. 2d 160, 113 N.Y.S. 2d 737 (Sup. Ct. 1952); see also Noma Lites, Inc. v. Lawn Spray, Inc., 222 F. 2d 716 (2d Cir. 1955); International Latex Corp. v. Flexees, Inc., 281 App. Div. 363, 119 N.Y.S. 2d 409 (1953); Pharmaceuticals, Inc. v. United Whelan Corp., 22 Misc. 2d 532, 197 N.Y.S. 2d 22 (Sup. Ct. 1959).

The teaching of these cases is that, in certain circumstances under New York law, an injunction will issue against confusingly similar trade dress, even though no secondary meaning is shown. In Feathercombs, for example, this Court stated as follows:

> "It is so easy for the honest business man, who wishes to sell his goods upon their merits, to select from the entire material universe, which is before him, symbols, marks and coverings which by no possibility can cause confusion between his goods and those of [his] competitors, that the courts look with suspicion upon one who, in dressing his goods for the market, approaches so near to his successful rival that the public may fail to distinguish between them." Florence Mfg. Co. v. J.C. Dowd & Co., 178 F. 73, 75 (2 Cir. 1910).
>
> "In this circuit and others, numerous decisions have recognized that the second comer has a duty to so name and dress his product as to avoid all likelihood of consumers confusing it with the product of the first comer." Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc., 281

F. 2d 755, 758 (2 Cir. 1960). . .

Solo contends, however, that Feathercomb's display did not acquire any secondary meaning and that the finding of unfair competition should be set aside. The reply to this is that there is no need for the display combination to acquire an extraordinary meaning; it need merely be distinctive enough to become recognized as "a public guaranty of origin and quality."

306 F. 2d at 257-58. See also Flexitized, Inc. v. National Flexitized Corp., 335 F. 2d 774 (2d Cir. 1964), cert. denied, 380 U.S. 913, 85 S. Ct. 899, 13 L. Ed. 2d 799 (1965), in which this Court held that the defendant's use of the plaintiff's trademark consitituted unfair competition despite the invalidity of the mark and despite the conclusion that the mark had not acquired secondary meaning:

> (R)elief has been granted in New York in a wide variety of situations to insure that "one may not misappropriate the results of the skill, expenditure and labors of a competitor". . . . A doctrine particularly developed in New York is that of granting relief upon the theory of the misappropriation of a property right or a commercial advantage of another. . . . Particularly where the defendant's conduct has involved a clear attempt to profit at the expense of the plaintiff, . . . New York courts have deemed the conduct to be unfair competition despite the fact that plaintiff's mark has not acquired a secondary meaning.

Id at 781-82.

In the present case, by dint of its own skill, efforts and expenditures, Perfect Fit had gained a commercial advantage over Acme. The district court found that Perfect Fit's trade dress was distinctive and memorable, and that the Bed-Sack had become very popular. Acme clearly sought to nullify Perfect Fit's advantage by copying its trade dress. The finding that Perfect Fit had failed to show that its dress had acquired sec-

ondary meaning, therefore, should not have foreclosed inquiry into whether the public was likely to be confused by the similarity of the trade dresses.

In assessing the likelihood of confusion to the public, an important factor is whether or not the second comer created the similar trade dress intentionally. If there was intentional copying the second comer will be presumed to have intended to create a confusing similarity of appearance and will be presumed to have succeeded. RJR Foods, Inc., v. White Rock Corp., 603 F. 2d 1058, 1060 (2d Cir. 1979); Harold F. Ritchie, Inc. v. Chesebrough-Ponds, Inc., 281 F. 2d 755, 758-59 (2d Cir. 1960); American Chicle Co. v. Topps Chewing Gum, Inc., 208 F. 2d 560, 562-63 (2d Cir. 1953); G.H. Mumm Champagne v. Eastern Wine Corp., 142 F. 2d 499, 501 (2d Cir.), cert. denied, 323 U.S. 715, 65 S. Ct. 41, 89 L. Ed. 575

(1944); My-T Fine Corp. v. Samuels, 69 F. 2d 76,77 (2d Cir. 1934); Bristol-Myers Co. v. Approved Pharmaceutical Corp., 149 U.S.P.Q. 896 (N.Y. Sup. Ct. 1966); Restatement of Torts § 729, comment f (1938).

In American Chicle Co. v. Topps Chewing Gum, Inc., supra, Judge Learned Hand stated as follows:

> (I)t is generally true that, as soon as we see that a second comer in a market has, for no reason that he can assign, plagiarized the "make-up" of an earlier comer, we need no more; for he at any rate thinks that any differentia he adds will not, or at least may not, prevent the diversion and we are content to accept his forecast that he is "likely" to succeed.

208 F. 2d at 563. Judge Hand went on to quote from the Restatement of Torts, supra, which comments as follows:

> (O)ne may infringe another's trade-mark or trade name by adopting a confusingly similar designation whether he does so innocently or for the purpose of deceiving prospective purchasers.

> But his knowledge or purpose is an important factor in determining whether or not his designation is confusingly similar. . . . (I)f he adopts his designation with the intent of deriving benefit from the reputation of the trade-mark or trade name, his intent may be sufficient to justify the inference that there is confusing similarity. Since he was and is intimately concerned with the probable reaction in the market, his judgment manifested prior to the controversy, is highly persuasive.

In the present case, the evidence and the district court's findings compel the conclusion that Acme's Bed-Mate J-board was likely to confuse the public.[5] The finding that "Acme deliberately copied the insert being used by Perfect Fit," is amply supported by the evidence. Acme's artist testified that he tried several times before he had

---

5. This conclusion is not altered by the district court's finding that after Acme copied the Perfect Fit J-board, Perfect Fit began to use, in addition to its original J-board, other, similar J-boards in supplying mattress covers to, for example, certain department stores.

finally emulated the Perfect Fit J-board to Acme's satisfaction; Acme gave him a Perfect Fit J-board as a sample after his first efforts proved unacceptable. We further agree with the district court's finding that Perfect Fit's J-board was "distinctive and memorable," and that Perfect Fit's and Acme's J-boards are "very similar."[6] While there are some differences, such as the pattern of stitching of the mattress cover and the color of the border between the gold and silver portions of the "art deco" frame, it is the "combination of features as a whole rather than a difference in some of the details which must determine

---

6. Since this Court has been presented with photographs of the J-boards, it is in as good a position as the district court to determine whether they are confusingly similar. Fur Information & Fashion Council, Inc. v. E.F. Timme & Son, Inc. 501 F. 2d 1048, 1050-51 (2d Cir.), cert. denied, 419 U.S. 1022, 95 S. Ct. 498, 42 L. Ed. 2d 296 (1974).

whether the competing product is likely to cause confusion in the mind of the public." Pharmaceuticals, Inc. v. United Whelan Corp., supra, 22 Misc. 2d at 534-35, 197 N.Y. S. 2d at 25. Looking at the packaging as a whole, we conclude that the dress adopted by Acme is indeed quite similar to that of Perfect Fit. Geven the fact that Perfect Fit's product was "hot," and given Acme's assiduous efforts to copy Perfect Fit's dress and to cause the public to believe that BedMate was "the original," we reject any contention by Acme that public confusion was unlikely.

On the present record, therefore, Perfect Fit is entitled to injunctive relief against further use of the offending J-boards by Acme.

At the same time, it is clear that Perfect Fit did not make out a case

for monetary relief. There was no showing at trial that the similarities in trade dress resulted in actual confusion of consumers. Perfect Fit offered to prove that verious retailers had confused BedSack with BedMate, advertising the latter while showing a picture of the former, or advertising the latter, and seeking reimbursement therefor from Perfect Fit. These offers were properly rejected since none of the proffered exhibits involved the use of the J-boards or the J-board designs, and there was no proof that the retailers' confusion derived from the similarity of the J-boards. Even had Perfect Fit adduced admissible evidence of confusion on the part of retailers, however, such evidence would not have shown actual confusion of the public but only the likelihood of such confusion. In the absence of proof of actual confusion of consumers, Perfect

Fit is not entitled to damages or an accounting. G.H. Mumm Champagne v. Eastern Wine Corp., supra.

Accordingly, we affirm so much of the district court's decision as denied the claim for an accounting and damages, but reverse the judgment dismissing the complaint and remand so an injunction may be entered.

APPENDIX B

PERFECT FIT INDUSTRIES, INC.,

Plaintiff-Appellee

v.

ACME QUILTING CO., INC.,

Defendant-Appellant.

Nos. 284 to 286, Dockets 80-7489
80-7585 and 80-7587

United States Court of Appeals,
Second Circuit.

Argued Dec. 15, 1980.

Decided April 13, 1981.

On remand from the Court of Appeals, 618 F. 2d 950, following judgment for defendant, 484 F. Supp. 643, the United States District Court for the Southern District of New York, Constance Baker Motley, J., entered injunction requiring recall of product following finding of unfair competition and the defendant appealed. The Court of Appeals, Kearse, Circuit Judge, held that: (1) court had the power to issue recall order; (2) def-

endant's studied ignorance of terms of injunctive order entered against it warranted finding of contempt; but (3) remand was required for trial court to state its reasons for selecting the particular fine which it imposed.

Affirmed in part and vacated and remanded in part.

Herbert Monte Levy, New York City (Stanley H. Schindler, New York City, on the brief), for defendant-appellant.

Roberta L. Jacobs, Philadelphia, Pa. (Arthur H. Seidel, Seidel, Gonda, Goldhammer & Panitch, P.C., Philadelphia, Pa., on the brief), for plaintiff-appellee.

Before FEINBERG, Chief Judge, KEARSE, Circuit Judge, and METZNER, District Judge.*

---

* The Honorable Charles M. Metzner, Senior Judge of the United States District Court for the Southern District of New York, sitting by designation.

KEARSE, Circuit Judge:

These appeals, in a matter now before us for the second time, require us to review certain portions of a decree entered in the United States District Court for the Southern District of New York, Constance Baker Motley, Judge, enjoining defendant from misappropriating plaintiff's rights in its trade dress in violation of state law, and to determine whether the district court erred when, in a subsequent order, it held defendant in contempt of the decree. We affirm the decree as being within the district court's discretion and affirm in part the subsequent order adjudging defendant in contempt of the decree, but we remand the contempt order for explanation of the fine imposed upon defendant.

I

Plaintiff Perfect Fit Industries,

Inc., and defendant Acme Quilting Co., Inc. are manufacturers of mattress pads. In 1976, Perfect Fit introduced a new variety of mattress cover that it called "BedSack"; this new product was highly successful. Shortly thereafter, Acme began to market a comparable cover called "BedMate." In packaging their respective products, both firms employed printed pieces of cardboard, called J-boards, that bend over the end of the packaged product so that part of the board is visible to buyers whether the packages are laid end-to-end on a table or stacked on a shelf. In designing its own J-boards, Acme deliberately copied the design successfully employed by Perfect Fit on its J-board.

In April 1977, Perfect Fit sued Acme, alleging that Acme's J-board infringed Perfect Fit's common law rights in its trade dress and constituted a false

designation of origin in violation of § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1976). After a bench trial, the district court found that Perfect Fit's trade dress was "distinctive and memorable," and that the Acme J-board introduced at trial as Plaintiff's Exhibit 2 was "very similar" to, and had been deliberately copied from, Perfect Fit's J-board. The court concluded, however, that secondary meaning was a necessary element of a claim for relief under both § 43(a) and New York's common law of unfair competition, and that Perfect Fit had failed to meet its burden of proving secondary meaning. Accordingly, the court entered judgment for Acme.

Perfect Fit appealed, and this Court reversed the judgment insofar as it denied injunctive relief on plaintiff's state law claim. Specifically,

we held that secondary meaning was not an element of New York's common law action for misappropriation of trade dress, and that Perfect Fit had made a sufficient showing of likelihood of customer confusion to warrant the granting of injunctive relief.[1] We therefore reversed the judgment dismissing Perfect Fit's complaint and remanded the action for entry of an injunction "against further use of the offending J-boards by Acme." Perfect Fit Industries, Inc. v. Acme Quilting Co., 618 F. 2d 950, 955 (2d Cir. 1980).

On remand, Perfect Fit submitted to the District court a proposed order, set forth in full in the margin,[2] to (1)

---

1. We held that Perfect Fit was not entitled to damages because if had not shown that Acme's infringement had actually confused customers.

2. The proposed order was as follows:
Pursuant to the Judgment rendered by the United States Court of Appeals for the Second Circuit on February 26, 1980 in Appeal No. 79-

enjoin Acme's "use of the trade dress exemplified by Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto"; (2) require Acme to deliver to plaintiff's counsel,

---

7329, it is hereby ordered:

1. That defendant, its officers, agents, servants, employees and attorneys and all persons acting in active concert or participation with them who receive actual notice of the order are hereby enjoined from use of the trade dress exemplified by Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto;

2. That defendant deliver up to counsel for plaintiff for destruction by such counsel within fifteen (15) days from the date of entry of this Order, all package inserts, all advertising materials, catalogues, promotional materials, and any other written material in its possession, custody or control which comprises and/or illustrates the trade dress exemplified Plaintiff's (sic) Exhibits 2 and 3, and any trade dress which is substantially similar thereto;

3. That defendant within fifteen (15) days from the date of entry of this Order, send to each distributor, jobber, wholesaler or other customer to whom defendant has, at any time within the six month period preceding entry of this Order, distributed any package inserts of the type exemplified by Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto, a letter, by certified mail, return receipt requested, in the form of the letter annexed hereto as Exhibit A, with each of said letters to be accompanied by a copy of this Order and send to counsel for

for destruction, all material in Acme's possession or control "which comprises and/or illustrates the trade dress exemplified (by) Plaintiff's Exhibits 2 and 3, and any trade dress which is sub-

---

plaintiff a carbon copy of each such letter;

4. That defendant deliver up to counsel for plaintiff for destruction by such counsel within forty-five (45) days from the date of entry of this Order all package inserts returned to defendant by each distributor, jobber, wholesaler or other customer in accordance with the letters sent pursuant to paragraph 3 of this Order;

5. The plaintiff, as the prevailing party, is awarded its costs incurred in this action.

Date:_____

Exhibit A to Proposed Order

(LETTERHEAD OF ACME QUILTING COMPANY, INC.)

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

We are writing to you pursuant to the terms of an Order entered March __, 1980 by the United States District Court for the Southern District of New York in Civil Action No. 77-2004, Perfect Fit Industries, Inc. v. Acme Quilting Co., Inc. A copy of this Order is enclosed herewith.

Acme Quilting Co., Inc. has been enjoined from use of package inserts of the type exemplified by Plaintiff's Exhibits 2 and 3, photographs of which are enclosed herewith, and any trade dress which is substantially similar thereto.

similar thereto"; and (3) require Acme, within fifteen days of entry of the order, to send a letter to customers and other persons to whom Acme had within the preceding six months distributed "any package inserts of the type exem-

---

Furthermore, we are required by Order of the Court to effect retrieval of all package inserts of the type exemplified by Plaintiff's exhibits 2 and 3 and any trade dress which is substantially similar thereto from each distributor, jobbers, wholesaler of other customer to whom such package inserts have been distributed at any time with (sic) the six month period preceding entry of the Court's Order.

Accordingly, you are requested to return to Acme Quilting Co., Inc. within fifteen (15) days of the date of your receipt of this letter all such package inserts at our expense. You may take a credit on your next order for such expense or submit a statement to Acme Quilting Co., Inc. for such expense.

Very truly yours,
ACME QUILTING CO., INC.

Enclosures
cc: Arthur H. Seidel, Esq.
Seidel, Gonda, Goldhammer
& Panitch, P.C.
600 Three Penn Center Plaza
Phila., Pennsylvania 19102

plified by Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto"; the letter was to state that Acme had "been enjoined from use of package inserts of the type exemplified by Plaintiff's Exhibits 2 and 3, photographs of which" were to be enclosed in the letter, and to request the return of such package inserts to Acme.

Acme's general counsel acknowledged receipt of the proposed injunction and, by letter, urged the court to strike the provision requiring the recall of the offending J-boards from Acme's customers, contending that

> the formats used in Exhibits 2 and 3 referred to in Perect Fit's proposed order were discontinued by Acme over 18 months ago and further were modified about 90 days ago so as to have a completely distinctive and different appearance from Exhibits 2 and 3. We respectfully request a hearing to demonstrate such facts.

The court heard argument on Perfect Fit's proposed injunction on April 22, 1980. Acme's general counsel acknowledged that a recall requirement was within the court's discretion,[3] but argued that the relative injury to Perfect Fit and cost to Acme did not justify such relief. Acme's president stated his estimate that the cost of a recall would be between $50,000 and $100,000. Following the hearing, the court gave Acme additional time to submit papers in connection with the proposed injunction. A post-hearing brief submitted by Acme on May 5 argued against a recall order and proposed certain changes in Perfect Fit's proposed injunction as follows:

> Not only should Paragraph 3 (concerning recall) of Plaintiff's proposed Order be completely stricken, but Paragraphs 1 and 2

---

3. Acme's counsel stated as follows: "It's in your Honor's discretion as to whether the injunction should include recall provisions, that's what I would like to talk about."

should be modified to read as follows:

1. "That Defendants (sic), its officers, agents, servants and employees and all persons acting in active concert or participation in business with the Defendant who receive actual notice of the Order are hereby enjoined from use of the trade dress set forth as Plaintiff's Exhibits 2 and 3 and any trade dress which is substantially similar thereto."

2. (")That Defendant destroy, within fifteen days from the entry of this Order, all package inserts, all advertising materials, catalogues, promotional materials and any other written material in its possession, custody or control which is the same or substantially the same as Plaintiff's Exhibits 2 and 3.

On May 19, 1980, the district court entered its injunctive order, in the form requested by Perfect Fit (see note 2 supra), and issued an opinion stating its reasons for granting the injunction. The order this enjoined Acme from using the offending trade dress immediately and directed Acme to surrender to Perfect Fit's counsel all offending J-boards and other materials in its pos-

session and to send the recall letter to each of Acme's customers by June 3, 1980.

On May 19 and 20, respectively, the Clerk of the district court mailed copies of the injunction and the opinion to the parties. Acme's counsel claims not to have received them. On May 21, 1980, the New York Law Journal printed a notice that an order, the contents of which were unspecified, had been entered in the case; Acme's counsel read this notice. Acme's counsel telephoned the district judge's chambers to request that a copy of the order be sent to him. The judge's law clerk mailed a copy to him, but Acme's counsel claims that he did not receive this copy of the order either. Since Acme's counsel did not go to the court clerk's office to obtain or inspect the May 19 order, he claims that he did not learn of the specific terms of the order until he

received a copy of the order from Perfect Fit's counsel on June 3, 1980, the date by which Acme was required to surrender its stock of offending J-boards and to mail the recall letters. After indicating to Perfect Fit's counsel on June 3 that Acme would comply with the May 19 order if Perfect Fit would allow it additional time, Acme's counsel informed Perfect Fit on June 4 that instead an appeal would be taken from the May 19 order.

On June 13, 1980, Perfect Fit moved to hold Acme in contempt. At the hearing on this motion on June 23, Perfect Fit introduced the testimony of Acme's general counsel that he had informed Perfect Fit's counsel on June 3 that Acme had not complied with the May 19 order, and that as of the date of the hearing he did not know that any steps had been taken toward compliance.

In addition, there was testimony that Acme products packaged with the offending J-boards had been purchased in the New York metropolitan area on June 13 and 17, 1980. For its part, Acme disputed the relevance of Perfect Fit's evidence concerning the availability of Acme products with the offending J-boards, and argued that it could not be held in contempt because it had not known of the May 19 order, because it was unable to comply with the order, and because the order's reference to trial exhibits, which were not attached to the order, made it impermissibly vague.

The district court ruled that a litigant has a duty to follow the progress of an action and to inform himself of the terms of an order he may wish to challenge. It found that Acme had received sufficient notice of the May 19 order and that it had not complied with

the order. In addition, the court found that the order was not impermissibly vague as to Acme because Acme's president had attended both the initial trial and the hearing on the proposed order and was therefore familiar with the exhibits referred to in the order. On June 24, 1980, the court entered an order holding Acme in contempt of the May 19 order. The June 24 order directed Acme to surrender its present stock of J-boards and mail the recall letters by June 27 and to surrender J-boards received pursuant to the recall by July 28, 1980; it further ordered that Acme be fined $5000 per day if it failed to comply with the June 27 and July 28 deadlines.

Acme has appealed from both the May 19 injunction and the June 24 contempt order, pressing most of the contentions

it asserted below.[4] It argues principally that the May 19 order was improper because the governing law does not permit the court to order a recall of infringing materials. As to the June 24 contempt order, Acme contends chiefly that is had insufficient notice of the order, that the order was impermissibly vague, that there was insufficient proof that the order had been violated, that compliance with the order was impossible, and that the $5000 per day fine was arbitrary. Finding ourselves in substantial agreement with the district court, we affirm the May 19 order,

4. Acme filed its notice of appeal from the May 19 order on June 17, 1980, and asked the district court to stay and modify the order. The district court denied Acme's motions on June 19, 1980, and Acme filed a notice of appeal from this ruling as well. Acme has not pressed the stay or modification issues before us, however, and to the extent that those issues are not encompassed by the appeal from the May 19 and June 24 orders, we affirm the June 19 order without discussion.

and we largely affirm the June 24 adjudication of comtempt. However, we remand the June 24 order insofar as it specified a $5000 find for noncompliance so that the district court may explain the basis and purpose of the fine.

II

We turn first to the propriety of the recall provision of the district court's May 19 order. The recall provision is an unusual, and perhaps unprecedented, remedy for a violation of New York's law of unfair competition. Nonetheless, we conclude that the imposition of a recall requirement is well within the district court's broad powers as a court of equity, and that the district court properly exercised these powers in the present case.[5]

---

5. We find no greater merit in Acme's other arguments, including its claim that it is im-

It is well settled that the district court's equity jurisdiction empowers it "to mould each decree to the necessities of the particular case."

---

properly required to reveal customer lists and its contention that injunctive relief is barred by Perfect Fit's "unclean hands."

We reject Acme's argument that the portion of the injunction that directed Acme to furnish Perfect Fit's counsel with copies of the recall letters improperly compels Acme to disclose its customer lists. The contention that these lists are confidential and that the requirement of their disclosure is improper was supported only by the barest and most conclusory allegation in an affidavit of its president; and this feature of the injunction elicited no protest whatever from Acme before, at, or after the hearing on the proposed injunctive provisions.

Acme's "unclean hands" defense is based on its counterclaims for damages allegedly sustained by Acme as a result of defamatory statements made by Perfect Fit to Acme's customers. The district court conducted a separate trial of these counterclaims, and a jury awarded Acme some $7.5 million in damages. Acme argues that Perfect Fit is barred from equitable relief because of this verdict. The district court, however, set aside this verdict and granted Perfect Fit a new trial on the ground that such a verdict shocked the "'judicial conscience.'" Perfect Fit Industries, Inc. v. Acme Quilting Co., 494 F. Supp. 505, 509 (S.D.N.Y. 1980). Even assuming that the alleged libel by Perfect Fit were sufficiently related to Acme's unfair competition to warrant invocation of the "unclean hands" doctrine, the district court's

Hecht Co. v. Bowles, 321 U.S. 321, 329, et al., 64 S.Ct. 587, 88 L.Ed. 754 (1944); Electronic Specialty Co. v. International Controls Corp., 409 F. 2d 937, 947 (2d Cir. 1969). Acme's contention is, however, that New York law simply forbids recall as a remedy for unfair competition. The decisions cited by Acme hardly stand for so sweeping a proposition. So far as appears, the New York courts have never ordered a recall of offending trade dress, and they have sometimes permitted defendants to exhaust existing stocks of infringing materials.[6] But the fact that a recall has never been ordered hardly means that

---

granting of a new trial made that defense unavailable. We note also that, following the argument of this appeal, the new trial was held and resulted in a verdict in favor of Perfect Fit.

6. See, e.g., Thomas J. Valentino, Inc. v. Majar Discs, Inc., 138 N.Y.S. 2d 494 (N.Y. Sup. Ct. 1955).

the remedy is prohibited. Certainly we are aware of no authority stating that the New York courts are without the power to order such a remedy. More fundamentally, it would not matter if New York did bar its courts from granting that remedy. State law does not govern the scope of the equity powers of the federal court; and this is so even when state law supplies the rule of decision. See Guaranty Trust Co. v. York, 326 U.S. 99, 106, 65 S. Ct. 1464, 1468, 89 L.Ed. 2079 (1945) ("a federal court may afford an equitable remedy for a substantive right recognized by a State even though a State court connot give it"); Clark Equipment Co. v. Armstrong Equipment Co., 431 F. 2d 54 (5th Cir. 1970), cert. denied, 402 U.S. 909, 91 S. Ct. 1382, 28 L.Ed. 2d 650 (1971).

Finally, we note that there is federal precedent for use of the recall

remedy in cases such as this. See Kiki Undies Corp. v. Promenade Hosiery Mills, Inc., 308 F. Supp. 489 (S.D.N.Y. 1969) (on remand from 411 F. 2d 1097 (2d Cir. 1969), cert. dismissed, 396 U.S. 1054, 90 S. Ct. 707, 24 L.Ed. 2d 698 (1970)); Sweetarts v. Sunline, Inc., 299 F. Supp. 572 (E.D.Mo. 1969), aff'd in part and rev'd in part on other grounds, 436 F. 2d 705 (8th Cir. 1971); Clairol Inc. v. Shapiro, 158 U.S.P.Q. 427 (C.D. Cal. 1968). See also Cutler-Hammer, Inc. v. Standard Relay Corp., 328 F. Supp. 868, 881 (S.D.N.Y. 1970), aff'd per curiam, 444 F. 2d 1092 (2d Cir. 1971). The circumstances in Kiki Undies were remarkably similar to those of the present case, except that the plaintiff's claim was decided under federal trademark laws rather than under state laws of unfair competition.[7]

7. Acme argues that Kiki Undies is distin-

The injunctive order fashioned by the district court required the defendant, inter alia, to use its best efforts, on a continuing basis, to withdraw the offending materials from all customers, retailers and other persons. The district court here had no less power to

---

guishable because the injury sustained through trademark infringement--dilution of the mark--differs in character from the injury flowing from an act of unfair competition. We grant the distinction, but find in it no reason to preclude a recall requirement in cases decided under state law.

Acme also seeks to distinguish Kiki Undies on the basis that the defendant in that case had been on notice that its conduct was illegal, and that Acme, by contrast, had distributed its J-boards in reliance on the district court's initial ruling that its conduct had not violated Perfect Fit's rights. This distinction is illusory. In Kiki Undies as in this case, the infringing defendant had prevailed in the district court, but lost on appeal. See 411 F. 2d 1097 (2d Cir. 1969), rev'g 160 U.S.P.Q. 775 (S.D.N.Y. 1968). In neither case did the recall penalize the defendant for acting in accordance with the judgment at trial. Rather, the recall served merely as a means of enforcing the plaintiff's rights as ultimately adjudicated. Thus the recall was a proper remedy for unlawful acts, not an improper penalty for lawful acts.

order Acme to make a single request to its distributees to return the offending J-boards.

We conclude that this was an appropriate case for the exercise of the court's power to require a recall. The district court found that Acme had intentionally copied Perfect Fit's trade dress, and on appeal we held that, as a matter of law, Acme's trade dress was likely to cause confusion among customers, see 618 F. 2d at 954-55. Acme's infringing trade dress was therefore likely to divert customers from Perfect Fit's product to Acme's particularly because the first appeal had prolonged the litigation and therefore increased the probable injury to Perfect Fit, the district court was entirely justified in fashioning swift and complete relief for Perfect Fit. The recall procedure would naturally hasten the removal of

the offending materials from public view and therefore seek to end quickly the injury to Perfect Fit.

Acme's argument that the recall provision is unduly burdensome is unpersuasive. Of course, a district court should carefully consider the likely burden and expense of a recall before it imposes the remedy. In some circumstances the imposition of a recall may be unduly onerous, as where the defendant's products are widely distributed and particularly expensive to ship. Or the probably benefit to the plaintiff from a recall may not outweigh the burden to the defendant in some cases even if that burden is relatively light. These are matters to be weighed in the first instance by the district court, and we see no abuse here of the district court's discretion. Nothing in the record developed below suggests that appropriate

consideration was not given to these questions or indicates that Acme would suffer unduly under the May 19 order. The order did not require Acme to take extensive action to retrieve the J-boards. The company need only have written its customers requesting a return of the boards and paid the cost of the return for those customers who complied. Compare Kiki Undies, supra. Acme's evidence concerning the cost of this program was wholly speculative[8]

---

8. Acme submitted no affidavits, documentation, or sworn testimony to support its president's statement that the cost of recall would be $50,000--$100,000. Nor does it appear that this estimate was arrived at on the basis of any detailed study, in light of the following colloquy at the hearing on the proposed injunction:

> THE COURT: Let me ask you this, what is your claim as to the amount of the expense based on, have you had a study make by somebody as to what this would cost?
> MR. RATTNER: We have thought about it.
> THE COURT: The question is, have you had that study made? You said it would cost a lot of money.
> MR. RATTNER: We have had a study made.

and was founded on the unwarranted assumption that every person contacted would return not only the J-boards, as requested, but the mattress covers as well. Given the flimsiness of Acme's showing of burden, we can hardly say that the district judge abused her discretion in granting the remedy.

Finally, although our opinion in the first appeal referred to an injunction "against further use" of the offending J-boards, 618 F. 2d at 955, nothing in our opinion or mandate purported to

---

THE COURT: What study is that?

MR. RATTNER: The study that we have talked to our traffic manager, we have talked to our mail department and we have estimated the cost of the mailing to the customer, the reply and the average amounts outstanding that would be return based on freight only.

It would amount to somewhere in the neighborhood, freight two ways, fifty to a hundred dollars per customer. That's only the freight.

It's a very costly item to ship. Each one of those costs--

THE COURT: How many customers do you have

MR RATTNER: Using this, somewhere in excess of 1,500 possibly 2,000.

restrict the district court's discretion to fashion an appropriate decree. We find that the May 19 order was a proper exercise of that discretion.

III.

In challenging the June 24 adjudication of contempt, Acme contends principally that it could not be held in contempt of the May 19 order because (1) it was never apprised of the terms of the order; (2) those terms were not sufficiently clear and specific; and (3) there was insufficient proof that Acme had violated them. It is indeed well settled that a person cannot be held in contempt of an order if he does not have knowledge of the order, see e.g. Vuitton et Fils S.A. v. Carousel Handbags, 592 F. 2d 126 (2d Cir. 1979); Fidelity Mortgage Investors v. Camelia Builders, Inc., 550 F. 2d 47,51 (2d Cir. 1976), cert.

denied, 429 U.S. 1093, 97 S. Ct. 1107, 51 L.Ed. 540 (1977), or if the terms of the order are unclear or ambiguous, see e.g. International Longshoreman's Ass'n v. Philadelphia Marine Trade Ass'n, 389 U.S. 64, 75-76, 88 S. Ct. 201, 207-208, 19 L.Ed. 2d 236 (1967); Powell v. Ward, 643 F. 2d 924 (2d Cir. 1981) (per curium), or if the proof of the party's noncompliance is not "clear and convincing," see e.g. Powell v. Ward, supra; Erhardt v. Prudential Group, Inc., 629 F. 2d 843 (2d Cir. 1980). Acme, however, was not the typical contemnor, who, having perused a court order, refuses to comply with it or fails to do so with sufficient energy and dispatch. Cf. Powell v. Ward, supra; Fidelity Mortgage Investors, supra. Rather, Acme's transgression stemmed from its remarkable failure to inform itself of the precise terms of the order in the first place. In the

circumstances, the finding of contempt was entirely appropriate.

As noted above, ignorance of the term of a decree would ordinarily preclude a finding of contempt. Nevertheless, a party to an action is not permitted to maintain a studied ignorance of the terms of a decree in order to postpone compliance and preclude a finding of contempt. The party and his counsel have a duty to monitor the progress of the litigation and to ascertain the terms of any order entered against the party. Unexcused failure to do so may justify a finding of contempt when the party knows that some order has been entered against him. Cf. United States v. Bryan, 339 U.S. 323, 330-31, 70 S. Ct. 724, 730, 94 L.Ed. 884 (1950) (dictum); United States v. Asay, 614 F. 2d 655, 660 (9th Cir. 1980); United States v. Swingline, Inc., 371 F. Supp. 37, 45 (E.D.N.Y.

1974); In re D.I. Operating Co., 240 F. Supp. 672 (D. Nev. 1965) (self-induced inability to comply with court order not a defense to contempt).

Under these principles, there was no lack-of-notice impediment to the district court's finding that Acme was in contempt of the May 19 order. Even if Acme's counsel did not receive either of the copies of the order that were mailed to him by the Clerk of the court or by the judge's law clerk, he learned on or about May 21 that an order had been entered in the case. And he knew that some sort of injunction would have been entered against his client: he knew that the Court of Appeals had ordered that injunctive relief be granted against his client; he knew that the proposed order submitted by Perfect Fit upon remand would require his client to take immediate action, including a re-

call, if it were adopted by the district court; and he knew that even Acme's own proposed alternative would require Acme to take action. Counsel knew or should have known that Fed.R.Civ.P. 77(d) required the clerk of the Southern District to mail notice of the May 19 order to him "(i)mmediately upon (its) entry."[9] Counsel was also aware of the district judge's practice of mailing copies of orders to affected counsel shortly after filing. Thus, if counsel had not received copies of the order in the mail shortly after he read the May 21 Law Journal notice, he should have realized that either the mails or the court's notifica-

---

9. Rule 77(d) provides in pertinent part: "Immediately upon the entry of an order or judgment the clerk shall serve a notice of the entry by mail...upon each party who is not in default for failure to appear, and shall make a note in the docket of the mailing." Service is to be made in accordance with Fed.R.Civ.P. 5, which requires service on a party's attorney.

tion systems had broken down, and he should have taken immediate steps to secure a copy of the order. Counsel's simple act of telephoning the judge's chambers to request that a copy of the order be mailed to him was inadequate. He failed to take the one step that was certain to secure a copy of the May 19 order: he failed to go, or to send a messenger, to the court clerk's office to ask for one. In the circumstances, counsel's failure to obtain a copy of the May 19 order from the clerk's office and to inform himself and his client of their precise duties cannot be the basis of a defense of lack of notice.

Nor do we find merit in Acme's contention that, because the May 19 order referred in haec verba to Plaintiff's Exhibits 2 and 3 without attaching those exhibits, Acme was unable to comply with the injunction because it was too vague.

We recognize that Fed.R.Civ.P. 65(d) provides, in pertinent part, that "an injunction...shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained." The reason for this requirement is that vague or general injunctions cannot be easily obeyed or effectively and fairly enforced.

> Rule 65(d) reflects Congress' concern with the dangers inherent in the threat of a contempt citation for violation of an order so vague that an enjoined party may unwittingly and unintentionally transcend its bounds.

Sanders v. Air Line Pilots Ass'n, 473 F. 2d 244, 247 (2d Cir. 1972). See 11 C. Wright & A. Miller, Federal Practice and Procedure §2955, at 541-42 (1973).

While we are not persuaded that Acme had sufficient knowledge of the identities of Plaintiff's Exhibits 2 and

3 simply because its president had attended the trial and the hearing on the proposed injunction, we conclude that Rule 65(d) was satisfied here because the record of the proceedings relating to the proposed injunction amply demonstrate Acme's grasp of these documents and its complete acquiescence in the reference to them. It is clear from Acme's responses to the proposed injunction that Acme knew precisely what J-board designs it was to cease using and to recall, and of which it was to send photocopies to its distributees. Its first response argued that "the formats used in Exhibits 2 and 3 referred to in Perfect Fit's proposed order (had been) discontinued," and that Acme's current J-boards had "a completely distinctive and different appearance from Exhibits 2 and 3." After the hearing on the proposed injunction, Acme proposed sub-

stitute paragraphs for the restraints on its use and possession of the offending materials; and its own proposed language would have "enjoined (it) from use of the trade dress set forth as Plaintiff's Exhibits 2 and 3 and any trade dress which is substantially similar thereto," and would have required it to destroy "material in its possession, custody or control which is the same or substantially the same as Plaintiff's Exhibits 2 and 3." (Emphasis added.)

Thus, although in other circumstances the disttict court would have been required by Rule 65(d) to attach photocopies of Exhibits 2 and 3 to its injunctive order, as was done with the form of recall letter to be sent, we will not allow Acme, whose own suggested language referred to those exhibits, to excuse its noncompliance on the ground that the May 19 order was impermissibly

vague.

Finally, while we agree with Acme that Perfect Fit's evidence concerning the continued display of the offending J-boards had little probative force,[10] there was sufficient evidence, most of it supplied by Acme itself, to show Acme's noncompliance with the May 19 order. Acme's insistence on its ignorance of the order provides amply "clear and convincing" proof of its noncompliance. Acme did not learn of the terms of the order until June 3, the last day for compliance; it told Perfect Fit's counsel on that day that there had been no compliance; its counsel testified on June 23 that he was unaware of any steps, as of that date, toward

---

10. The evidence of post-June 3 purchases had minimal probative value in view of the fact that Acme's customers would have been free to retain their stocks of offending J-boards despite Acme's recall request.

compliance; and Acme did not come forward with any evidence to indicate that it began efforts to comply on June 3 or any other date. In the circumstances, Perfect Fit made a sufficient showing of noncompliance to justify the finding of contempt.[11]

One point as to the conditional fine imposed by the June 24 order merits consideration. The order provides for a $5000 per day fine on Acme in the event of noncompliance with the June 24 contempt order, and Acme challenges the amount of the fine as arbitrary and capricious.[12]

---

11. On the basis of our own examination of the exhibits adduced at the contempt hearing, we reject Acme's claim that its latest versions of its J-boards were not substantially similar to Exhibits 2 and 3. As we noted in the first appeal, because this court had been presented with photographs of the J-boards, it is in as good a position as the district court to determine whether they are confusingly similar. See 618 F. 2d at 954 n. 6.

12. The record does not disclose whether Acme

The sanctions imposed upon a contemnor may properly serve to coerce future compliance or to remedy past noncompliance. E.G., Powell v. Ward, supra; Vuitton et Fils S.A. v. Carousel Handbags, supra. If a fine is imposed for compensatory purposes, the amount of the fine must be based upon the complainant's actual losses sustained as a result of the contumacy. E.g., United States v. UMW, 330 U.S. 258,304,67 S. Ct. 677, 91 L.Ed. 884 (1947). If the fine is coercive, the court must "consider the character and magnitude of the harm threatened by continued contumacy, and the probable effectiveness of any suggested sanction in bringing about the result desired." Id. (footnote omitted). See also International Business Machines Corp. v. United

---

obeyed the June 24 order, or, if it did not, whether Perfect Fit sought to enforce the provision concerning the fine.

States, 493 F. 2d 112, 116 (2d Cir. 1973), cert. denied,416 U.S. 995, 94 S. Ct. 2409, 40 L.Ed. 2d 774 (1974). The district court did not state its reasoning in selecting the fine it imposed, and Perfect Fit has not defended this amount before us. Because we cannot review the propriety of the fine without being informed of its purpose and basis, we vacate that portion of the June 24 order and remand it so that the district court may indicate its rationale for the fine.

The May 19 order is affirmed. The June 24 order is affirmed in part and vacated and remanded in part for explanation of the purpose and basis of the fine, with jurisdiction of the June 24 order retained in the Court of Appeals. Plaintiff shall recover the costs of this appeal.

NOTE: The opinion of the District Court referred to at A44 supra is not reproduced. It involved a severed counterclaim for defamation, rejected by a jury upon retrial, thus mooting Acme's claim that the alleged defamation constituted a lack of clean hands.

APPENDIX C

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 285, September Term, 1980

(Submitted after remand:
December 18, 1981 Decided: March 5, 1982)

Docket No. 80-7585

PERFECT FIT INDUSTRIES, INC.,

Plaintiff-Appellee,

—against—

ACME QUILTING CO., INC.,

Defendant-Appellant.

Before:

FEINBERG, *Chief Judge*, KEARSE, *Circuit Judge*, and METZNER, *District Judge*.*

Appeal from an order of the United States District Court for the Southern District of New York, Constance Baker Motley, *Judge*, imposing a $5000 per day contingent fine upon civil contemnor.

Affirmed.

* The Honorable Charles M. Metzner, Senior Judge of the United States District Court for the Southern District of New York, sitting by designation.

SEIDEL, GONDA, GOLDHAMMER & PANITCH, P.C. (Arthur H. Seidel, Roberta L. Jacobs, Philadelphia, Pennsylvania), *for Plaintiff-Appellee.*

HERBERT MONTE LEVY, New York, New York, *for Defendant-Appellant.*

KEARSE, *Circuit Judge:*

This case returns to us following our remand of so much of an order of civil contempt entered on June 24, 1980, in the United States District Court for the Southern District of New York, Constance Baker Motley, *Judge* ("June 24 Order"), as imposed on defendant-appellant Acme Quilting Co., Inc. ("Acme"), a contingent $5000 per day fine on account of its contempt of injunctive orders of that court. We remanded for clarification by the district court of the purpose and basis of the fine in order that we might rule on Acme's contention that the amount of the fine was arbitrary and capricious. In light of the district court's clarification, we conclude that the court properly imposed the contingent fine in order to compel Acme to comply with the court's injunctive orders and that the amount of the fine was not so high as to constitute an abuse of the court's discretion. Accordingly, we affirm so much of the June 24 Order as has not already been affirmed.

BACKGROUND

The history of this action is described in detail in two prior opinions of this Court, 618 F.2d 950 (1980) and 646 F.2d 800 (1981), familiarity with which is assumed. A summary of the prior proceedings will suffice here.

In April 1977, plaintiff-appellee Perfect Fit Industries, Inc. ("Perfect Fit"), instituted suit against Acme contending that Acme had wrongfully appropriated Perfect Fit's trade dress in designing inserts called "J-boards," which are used by both firms in the marketing of mattress covers. After a bench

trial, the district court concluded that Perfect Fit's J-board was "distinctive and memorable," that Acme's J-board was "very similar" to it, and that Acme had "deliberately copied" Perfect Fit's J-board. The district court concluded, however, that Perfect Fit had not proven all the elements necessary to recover under either federal or state law. Perfect Fit appealed, and we reversed in part, holding that Perfect Fit had shown a sufficient likelihood of consumer confusion that, under New York law, it was entitled to injunctive relief. We remanded for entry of an injunctive order prohibiting Acme from using the misappropriated trade dress. 618 F.2d at 955.

On remand, after a hearing and written submissions from the parties, the district court issued an order dated May 19, 1980 ("May 19 Order"), requiring Acme to cease using the offending J-boards immediately and directing Acme to deliver to Perfect Fit's counsel by June 3, 1980, all of the offending J-boards and related materials, and to send, by the same date, recall letters to Acme's customers. Acme failed to take any steps to comply with the May 19 Order by June 23, and on June 24 the court held Acme in civil contempt. The court's June 24 Order directed Acme to surrender its stock of the offending J-boards and mail the recall letters by June 27, and to surrender J-boards received pursuant to the recall by July 28. In addition, the court imposed a contingent fine of $5000 for each day, subsequent to these new deadlines, that Acme continued its noncompliance with the court's injunctive orders.

Acme appealed from both the injunctive and the contempt orders. We affirmed the injunction and affirmed so much of the June 24 Order as held Acme in contempt. 646 F.2d at 810. However, we remanded the June 24 Order insofar as it imposed the contingent fine, and directed the district court to explain the basis and purpose of the fine, so that we could adequately review Acme's contention that the amount was arbitrary. *Id.* We retained jurisdiction to review the fine following the district court's explication.

The District Court's Basis for the Fine

On remand, the district court, after hearing from the parties, filed an opinion dated October 20, 1981, explaining its purpose in imposing the contingent fine, its view of the need for a fine of significant size, and the factors it had considered in determining the appropriate amount of the fine. The court stated that the purpose of the fine was to compel Acme to obey the injunctive orders of the court:

> The intent of this court in imposing a contingent fine of $5,000 per day in the Order of June 24, 1980, was to coerce the defendant into compliance with the Order of May 19, 1980 as revised by the Order of June 24, 1980. This court found that defendant had willfully failed to even inform itself of the provisions of the final injunctive order which it knew had been entered. A more brazen contempt of court would be difficult to come by.
>
> Although the intent of the Order of June 24, 1980 was, in part, to prevent additional future damage to plaintiff by inducing compliance with the Order of May 19, 1980, there was no intention to compensate plaintiff for any damage it had suffered to that date.

Slip op. at 3. Observing that prior to the June 24 Order Acme had taken no steps toward compliance with the May 19 Order and had offered no valid excuse for its noncompliance, *id.* at 4, the court concluded that Acme's noncompliance had been "deliberat[e]," *id.* at 6, and "willful," *id.* at 7. Judging that compliance with the court's injunctive orders was necessary to avert future harm to Perfect Fit, *id.* at 5, and future disrespect for the orders of the court, *id.* at 4-5, the court concluded that "compliance with the [injunctive] orders could be achieved only through economic sanction," *id.* at 4.

In determining the amount of the fine to be collected in the event that Acme continued, past the new deadlines, to disobey the court's orders, the court stated that it had

considered a number of factors. These included the magnitude of the harm threatened to Perfect Fit in the event of Acme's continued noncompliance, *id.* at 4-5; the fact that Acme is a business enterprise presumably motivated by economic considerations, *id.* at 6; the need to impose a fine sizeable enough to "make it economically unwise for defendant to continue to ignore the provisions of the previous court orders," *id.;* and the seriousness of the burden on Acme, *id.* at 7. In assessing the magnitude of future harm to Perfect Fit, the court noted, *inter alia,* that in the first year after Acme's misappropriation of Perfect Fit's trade dress Acme had sold some four million mattress pads, and it inferred from Acme's sales and its market position that Acme had sufficient market power to inflict great damage. In assessing the burden on Acme, the court noted that its June 24 Order had given Acme time in which to purge itself of its prior contempt with no fine, *id.* at 2, 7; had imposed the fine only prospectively and contingently, to be collected only if the new schedule were not met, *id.* at 7; and had provided that the fine was to continue only so long as Acme failed to comply, *id.* In addition, the court noted that Acme was a sizeable company with pre-1980 sales exceeding $20 million per year, and concluded that a contingent fine of $5000 per day would not be confiscatory. *Id.* Using Acme's own estimate of the cost of its compliance with the injunctive orders, *i.e.,* $50,000-$100,000, the court concluded that a contingent fine of $5000 per day would make it more economical for Acme to comply than to continue its contempt.[1] *Id.* at 7-8. The court concluded:

---

[1] Acme challenges the district court's reference to Acme's own cost estimates because the court had earlier found those estimates unsubstantiated, *see* 646 F.2d at 807 n.8, and possibly overstated by 100-300%. Acme's challenge misperceives the court's frame of reference. The court found that a $5000 per day fine would make it more economical for Acme to comply with the court's orders even if the cost of compliance were as *high* as Acme had contended. Obviously if the cost of compliance would be significantly lower than Acme's estimates, it would be even more economically attractive to Acme to comply with, rather than to ignore, the court's orders.

> As compliance was the desired result, it was the judgment of this court that the fine as imposed, contingent, yet substantial, would be the most effective remedy for defendant's contempt.

Id. at 8.

Following entry of the court's explanatory opinion, the parties filed new briefs in this Court, with Acme pursuing its contention that the amount of the $5000 per day contingent fine was arbitrary and capricious. Acme argues that the amount of the fine is impermissibly burdensome and attacks the validity of the reasons offered by the district court.

DISCUSSION

As discussed in our prior opinion, 646 F.2d at 810, a sanction imposed on a party held in civil contempt generally may serve either or both of two purposes: to coerce the contemnor into complying in the future with the court's order, or to compensate the complainant for losses resulting from the contemnor's past noncompliance. *See McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 191 (1949); *United States v. UMW*, 330 U.S. 258, 303-04 (1947); *Vuitton et Fils S.A. v. Carousel Handbags*, 592 F.2d 126, 130 (2d Cir. 1979). When the purpose is compensatory, the order should be fashioned so as to reimburse the injured party for his actual damages. *Id.* at 130. When, however, the purpose is coercive, the district court has broad discretion to design a remedy that will bring about compliance. *See id.; see Powell v. Ward*, 643 F.2d 924, 933 (2d Cir.) *(per curiam), cert. denied*, 102 S.Ct. 131 (1981). Several factors should be considered in the exercise of this discretion, including the "character and magnitude of the harm threatened by continued contumacy, . . . the probable effectiveness of any suggested sanction in bringing about [compliance]," and the "amount of [the contemnor's] financial resources and the consequent seriousness of the burden to [him]." *United States v. UMW, supra*, 330 U.S. at 304. *See also International Business Machines*

Corp. v. United States, 493 F.2d 112, 116 (2d Cir. 1973) (dictum), *cert. denied*, 416 U.S. 995 (1974). Ultimately, however, the overriding consideration is whether the coercive fine was reasonably set in relation to the facts and was not arbitrary.

In the present case, we conclude that imposition of the contingent fine was within the bounds of the court's discretion. It is clear from the terms of the June 24 Order and from the district court's opinion on remand (and it seems not to be disputed by Acme), that the purpose of the fine was coercive. The court's opinion on remand, described in detail above, demonstrates that in fixing the amount of the fine the court had taken into account the relevant factors: it considered the magnitude of the harm to Perfect Fit that was sought to be averted; it considered the seriousness of the burden on Acme, both in terms of the size of the fine as compared to the size of Acme's business, and in terms of Acme's ability to forestall or end any accumulation of fines simply by complying with the June 24 Order;[2] it considered the need that any fine be substantial enough to make it more economical for Acme to comply than not to comply; and it considered, given Acme's "deliberat[e]," "willful," and indeed "brazen" contumacy, the need for a contingent fine in an amount sufficiently substantial to compel Acme to comply.[3]

Acme's principal attack on the district court's careful explanation of its reasons for imposing the fine is that the

---

[2] Any suggestion by Acme that compliance with the court's injunctive orders is unduly burdensome is, of course, foreclosed in light of our prior decision, 646 F.2d at 805-08, upholding the injunctive order.

[3] Acme argues that in fact there was no need for the court to impose an economic sanction in order to coerce compliance. (Acme brief at 3-4, 10.) In light of Acme's willful failure in May 1980 to inform itself of the terms of what it knew to be an injunctive order against it so that it could commence timely compliance, *see* 646 F.2d at 808-09, and its failure to take a single step toward compliance between June 3, 1980, when it claimed first to have learned the precise terms of the injunction, and June 23, 1980, when the hearing on Perfect Fit's contempt motion was held, *id.* at 805, we find Acme's argument frivolous.

district court improperly considered only the volume of Acme's sales in assessing the burden created by the fine. Relying on our observation in *International Business Machines Corp. v. United States, supra*, 493 F.2d at 116, that the $150,000 per day contingent fine there imposed constituted only five percent of the defendants' average daily earnings, Acme argues that the district court should have set the amount of the fine in relation to Acme's daily net profit, which Acme claims was less than $500. This contention must be rejected in the circumstances of this case. Although the profit earned by a contemnor may well be relevant in assessing the seriousness of the burden inflicted by a coercive fine, such profit figures are hardly dispositive. They have their greatest utility in determining whether or not a daily fine that is unusually large in absolute amount, such as the $150,000 fine above, is confiscatory. While the $5000 per day imposed on Acme is substantial, and intentionally so, we cannot conclude that it is confiscatory simply because Acme's daily profits are modest. Indeed, adoption of Acme's contention would lead to the conclusion that a coercive fine could never be imposed on a company, no matter how contumacious, that was financially troubled.

We believe the district court was entitled to refer to Acme's sales volume of more than $20 million per year and to discount the low level of Acme's claimed profits, in light of the court's conclusion that "given the willful nature of defendant's conduct, a small fine would not have secured compliance." Slip op. at 7. Thus, although the amount of the fine is high as compared to Acme's claimed profits, we conclude that it was within the discretion of the district court, especially since Acme was given the power to avoid the fine entirely or to end its accrual.

The June 24 Order of the district court is affirmed.

700-03-05-82 • USCA-5673
WORLD COMPOSITION SERVICES, INC.,
432 Park Ave. S., N.Y. 10016 (212) 686-5200

APPENDIX D

PERFECT FIT INDUSTRIES, INC.,

Plaintiff,

v.

ACME QUILTING CO., INC.,

Defendant.

No. 77 Civ. 2004 (CBM).

United States District Court,
S.D. New York.

Jan. 15, 1979.

Manufacturer of mattress pads sued competitor for false designation under the Lanham Act and for unfair competition under New York law. The District Court, Motley, J., held that: (1) the manufacturer failed to establish that its tradedress, which had been in circulation for only four months, had acquired a secondary meaning so as to entitle manufacturer to recover under Lanham Act for false designation of origin, and (2) manufacturer failed to est-

ablish that the competitor had palmed off its mattress pads as those of the manufacturer.

Judgment for the defendant.

Affirmed in part and reversed in part, 618 F. 2d 950.

Seidel, Gonda & Goldhammer, P.C. by Arthur Seidel, Roberta Jacobs, Joel S. Goldhammer, Philadelphia, Pa., Fink, Weinberger, Fredman & Charney, P.C. by Gerald Kahn, New York City, for Plaintiff.

Posnack, Roberts, Cohen & Spiecens by Alan K. Roberts, Cooper, Dunham, Clarke, Griffin & Moran by John N. Cooper, New York City, for defendant.

MOTLEY, District Judge.

Findings of Fact and Conclusions of Law

Plaintiff Perfect Fit Industries, Inc. (Perfect Fit), a Delaware corpora-

tion, has brought this suit against defendant Acme Quilting Co., (Acme), a New York Corporation, for false designation under the Lanham Act, 15 U.S.C. §1125(a) and for unfair competition under New York law. A trial was held by the court. The court finds that Perfect Fit has failed to prove its two causes of action by a clear preponderance of the evidence. Therefore, the court finds for the defendant and makes the following findings of fact and conclusions of law.

Facts

Perfect Fit and Acme manufacture and sell fully quilted contoured mattress pads. In 1976 Perfect Fit introduced a new type of mattress pad, which covered both the mattress and the boxsprings. This new product became very popular. The mattress pad was not patented. Approximately four months after Perfect

Fit began to sell its new kind of mattress pad, Acme entered the market with a competing product.

Perfect Fit alleges that Acme copied its tradedress in order to confuse customers as to the origin of its mattress pads. Perfect Fit marketed its mattress pads under the name "BedSack", a registered trademark. Acme marketed its product under the name "BedMate", also a registered trademark. Perfect Fit and Acme both sold their mattress pads in clear plastic wrapping into which an insert, or "J-board", is placed so that the insert is visible to the prospective purchaser. The designs of Perfect Fit and Acme's J-boards are very similar. Perfect Fit's insert, Plaintiff's Exhibit 1, is printed in six colors, four colors in the photograph in the center of the insert, and two colors, gold and silver, making up

an Art Deco frame around the photograph, which shows a blonde woman in night clothes seated near the head of a mattress covered with the BedSack pad. The name BedSack appears in white. The court finds Perfect Fit's tradedress to be distinctive and memorable.

Acme's insert, Plaintiff's Exhibit 2, also consists of a photograph of a blonde woman in night clothes reclining near the head of the mattress, surrounded by a two-color Art Deco frame. Both inserts have a brown background. Acme's insert has the name BedMate written across it in white letters.

The court not only finds the two inserts very similar, it also finds that Acme deliberately copied the insert being used by Perfect Fit. Acme's graphic artist, Ira Kramer, was retained by Acme to prepare a design for its insert. After he had prepared several

designs which were not accepted by Acme, an officer of Acme gave him the insert of Perfect Fit. Kramer then used that design as the basis for his design which was then used by Acme.

Perfect Fit first used this insert in May or June of 1976, when it first introduced the new mattress pad. Acme first used its insert in September of 1976. There are no allegations of trademark or patent infringement here. Rather, Perfect Fit is suing based on violation of its rights in its trade-dress.

Lanham Act Claims

The Lanham Act provides, at 15 U.S.C. §1125(a):

> "Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to de-

> scribe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action...by any person who believes that he is or is likely to be damaged by the use of any such false description or representation."

This law does not forbid Acme from attempting to compete in the manufacture of the new type of mattress covers introduced onto the market by Perfect Fit. Acme may copy and undersell Perfect Fit's product so long as Acme does not falsely designate the origin of its product. This is true even though Acme benefits from a "free ride" due to plaintiff's expense in developing and advertising the product. Charles D. Bridell, Inc. v. Alglobe Trading Corp., 194 F. 2d 416, 418 (2d Cir. 1952); Bose Corp. v. Lin-

ear Design Lab., Inc., 340 F. Supp. 513 (S.D.N.Y. 1971).

To recover under the Lanham Act for false designation of origin, the plaintiff must prove that its tradedress had acquired a secondary meaning, that is

> "that the primary significance of the term in the minds of the consuming public is not the product but the producer."

Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 118, 59 S. Ct. 109, 113, 83 L.Ed. 73 (1938). As the court said in Ralston Purina Co. v. Thomas J. Lipton, 341 F. Supp. 129, 133 (S.D.N.Y. 1972):

> "In other words, the consumer, having acquired confidence in the quality of a product through usage, is entitled to protection against imitations marketed by other producers."

Since the court finds that Perfect Fit has failed to prove secondary meaning for its tradedress, the court need not

reach the question of whether Perfect Fit proved that there was a likelihood of confusion between the two tradedresses. Clairol Inc. v. Gillette Co., 389 F. 2d 264 (2d Cir. 1968).[1]

Perfect Fit submitted no consumer surveys showing identification in the public's mind of Perfect Fit's tradedress with Perfect Fit's mattress covers. Instead, Perfect Fit attempted to establish that its tradedress had acquired secondary meaning by showing its advertising expenditures and the popularity of its product.

An important factor in this case is that Perfect Fit's inserts were in circulation for only four months before Acme entered the market with its similar insert. This is an extremely short time

---

1. By letter dated November 1, 1978, plaintiff's counsel withdrew plaintiff's claims that there was evidence of actual confusion.

in which to establish secondary meaning in the minds of consumers. In this court's opinion in Fund of Funds, Ltd. v. First American Fund of Funds, 274 F. Supp. 517 (S.D.N.Y. 1967), the court found that secondary meaning had been established in the relatively short period of three years due to extensive publicity and success of the product. Perfect Fit has been unable to cite a case in which tradedress had acquired secondary meaning in a shorter time than three years. For example, in Ralston Purina, supra, one year was found to be too short a time to establish secondary meaning even though four million dollars had been spent in advertising the product. See also Kellogg Co., supra, (no secondary meaning even though plaintiff originated term "shredded wheat", used it extensively for thirty years and spent over seventeen million dollars

advertising it.) Compare Sutton Cosmetics (P.R.), Inc. v. Lander Col, Inc., 455 F. 2d 285 (2d Cir. 1972) (After six years, secondary meaning established); American Chicle Co. v. Topps Chewing Gum, 208 F. 2d 560 (2d Cir. 1953) (After two years of use of trademark and eleven million dollars worth of advertising, secondary meaning established).

Perfect Fit relies on the fact that is spent $281,000 on advertising in all of 1976 for its mattress covers. However, the court finds that not all of its advertising featured the insert, Plaintiff's Exhibit 1, at issue here, so that amount must be reduced somewhat in considering the extent that such advertising would create an identification of the insert with Perfect Fit.

It is undisputed that Perfect Fit's mattress covers were popular with the public. However, this does not mean

that the tradedress made an impression on the public in the four months in which it was used before defendant entered the market. Sales alone cannot establish secondary meaning. Norwich Pharmacal Co. v. Sterling Drug, Inc., 271 F. 2d 569,572 (2d Cir. 1959), cert. denied, 362 U.S. 919, 80 S. Ct. 671, 4 L.Ed. 2d 739 (1960); Remco Industries, Inc. v. Toyomenka, 286 F. Supp. 948, 953 (S.D.N.Y.), aff'd per curiam, 397 F. 2d 977 (2d Cir. 1968).

The court finds that the evidence offered by Perfect Fit as to the amount of advertising, given the short time at issue here, and the popularity of the product, is inconclusive, and that Perfect Fit has failed to prove by a preponderance of the evidence that its tradedress had acquired secondary meaning.

Perfect Fit argues that this court should dispense with the requirement that it prove secondary meaning and instead protect Perfect Fit's attempts to develop secondary meaning. Perfect Fit is unable to point to any decision by the Second Circuit which established an exception under the Lanham Act to the requirement of secondary meaning if "incipient" secondary meaning is proved. Perfect Fit argues that a court of equity should enjoin predatory practices of the defendant even if no confusion in the minds of consumers is shown. Perfect Fit relies on dicta in National Lampoon, Inc. v. American Broadcasting Co. Inc., 376 F. Supp. 733,747 (S.D.N.Y.), aff'd per curiam, 497 F. 2d 1343 (2d Cir. 1974). In that case, the court found that the name "Harvard Lampoon" had been in use for one hundred years and that the name "National Lampoon" had been

used by the plaintiff for five years. The court found "strong evidence" of secondary meaning. In dicta, the district court went on to say that even in the absence of such strong proof, "incipient" secondary meaning would have been protected. The court found a deliberate attempt by the defendant to trade on the plaintiff's good will after negotiations over the use of the name "lampoon" broke down. However, this court finds that this situation does not present the same equitable considerations as National Lampoon, even if this court were to dispense with the requirement of secondary meaning. After September 1976 when Acme introduced its competing tradedress, Perfect Fit diluted any developing secondary meaning when it began to use some seventeen other inserts for the same mattress cover at issue here. For example, Perfect Fit

prepared special inserts for the mattress covers which were sold through certain department stores.

Therefore, the court will not hold Acme liable for false designation of origin under the Lanham Act in light of Perfect Fit's failure to prove secondary meaning for its tradedress.

State Law Claims

Perfect Fit has also alleged violations of New York State law against unfair competition. The elements of a cause of action for unfair competition are very similar to the elements of false designation of origin under the Lanham Act.

The New York courts have developed very specific equitable exceptions to the secondary meaning requirement. Perfect Fit did not prove that Acme engaged in any of the specific predatory practices which the New York courts have

set out as exceptions to the requirement of proof of secondary meaning. The New York standard was discussed by the Second Circuit in Norwich Pharmacal Co., supra, and Flexitized, Inc. v. National Flexitized Corp.,335 F. 2d 774 (2d Cir. 1969). As the Second Circuit said in Norwich Pharmacal, at 570-71:

> "Distaste for sharp or unethical business practices has often caused the courts to lose sight of the fundamental consideration in the law of unfair competition--protection of the public. Added to this standard is a developing body of law which pertains only to business conduct, namely that a court of equity will restrain such practices as constitute palming off, actual deception or appropriation of another's property." (Footnotes omitted).

The New York courts have enjoined palming off, Santa's Workshop, Inc. v. Sterling, 2 A.D. 2d 262, 153 N.Y.S. 2d 839 (1956). Acme cannot be

said to have palmed off its mattress covers as those of Perfect Fit's. Acme's name "BedMate" was prominently displayed on its insert. As the court said in Ralston Purina, supra, at 135:

> "Palming off is an attempt by one person to induce customers to believe that his product is actually that of another; it requires an intent to deceive and proof af actual fraud. Venetiannaire Corp. of America v. A&P Import Co., 302 F. Supp. 156, 160 (S.D.N.Y. 1969), aff'd, 429 F. 2d 1079 (2d Cir. 1970); Remco Industries, Inc. v. Toyomenka, Inc., supra, 286 F. Supp. at 954; Restatement of Torts §717, Comment a at pp. 565-66. The mere fact that two products have similarities as to name and packaging does not necessarily establish palming off... (S)o long as the defendant has taken reasonable precautions to distinguish its product from that of plaintiff, a finding of palming off will not be justified. Kellogg Co. v. National Biscuit Co., supra; Tas-T-Nut Co. v. Variety Nut & Date Co. (245 F. 2d 3, 5-6 (6th Cir. 1967))." (citations omitted).

The court finds that Perfect Fit has not

proven that Acme palmed off its mattress covers as those of Perfect Fit. Norwich Pharmacal, supra, 571-72. The other predatory practices condemned by the New York State Courts are not at issue here. See Noma Lites, Inc. v. Lawn Spray, Inc. 222 F. 2d 716 (2d Cir. 1955) (confidential business secrets abused). See generally Schultze, Trade Dress and Unfair Competition, 43 Brooklyn L. Rev. 654 (1977); New York State Unfair Competition Law, 25 Buffalo L. Rev. 241, 262 (1975).

Since the court finds that Perfect Fit has failed to prove secondary meaning and that Perfect Fit has failed to prove that Acme engaged in a predatory practice condemned by New York State law which would cause the court to invoke its equitable powers, the court finds for Acme on the state law claims as well as the federal claim. J. Jos-

ephson Inc. v. General Tire & Rubber Co., 357 F. Supp. 1047, 1050 (S.D.N.Y. 1972)(Motley, J.); Bose Corp. v. Linear Design Labs, Inc. 340 F. Supp. 513 (S.D.N.Y. 1971)(Motley, J.)

Therefore, judgment is entered for defendant Acme Quilting Co., Inc. on both claims.

Submit order on notice.

SO ORDERED.

APPENDIX E

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----------x

PERFECT FIT INDUSTRIES, INC.,

Plaintiff,

-against-

ACME QUILTING CO., INC.,

Defendant.

----------x

(USDC seal)
Filed
May 22
1980
S.D. of N.Y.

77 Civ.
2004

#50080

APPEARANCES

SEIDEL, GONDA, GOLDHAMMER & PANITCH, P.C.
By: Arthur H. Seidel
600 Three Penn Center Plaza
Philadelphia, Pennsylvania
19102
Attorneys for Plaintiff

STANLEY H. SCHINDLER
9 East 40th Street
New York, New York 10016

Attorney for Defendant

CONSTANCE BAKER MOTLEY, D. J.

MEMORANDUM OPINION

On February 26, 1980, the Court of Appeals held that plaintiff Perfect Fit Industries, Inc. is entitled to injunctive

relief against further use of the offending "J-Boards" by defendant Acme Quilting Co., Inc. Plaintiff has submitted a proposed order enjoining defendant from using the infringing trade dress or any trade dress which is substantially similar to the infringing trade dress. Defendant has objected to those provisions of the proposed order which require defendant to recall the infringing J-Boards, notify customers of the court's order in connection with the recall, and deliver the infringing J-Boards to plaintiff for purposes of destruction.

First, defendant argues that the proposed order is not in accordance with plaintiff's prayer for relief. Contrary to defendant's argument, plaintiff's prayer for relief does in fact request that defendant be enjoined from using any trade dress which is confusingly similar to plaintiff's trade dress and from unfairly

competing with plaintiff in any manner whatsoever. In addition, plaintiff's prayer for relief requests that defendant be required to deliver all packaging materials which illustrate defendant's infringing trade dress. Finally, plaintiff's prayer for relief requests "such further relief as may be deemed just and proper by this Court." Thus, it is evident that plaintiff's proposed order is in accordance with plaintiff's prayer for relief.

Second, defendant argues that the proposed order does not comport with the order of the Court of Appeals. Again, defendant's argument is without basis. The Court of Appeals held that plaintiff is entitled to injunctive relief against further use of the offending J-Boards by defendant. At no point in its opinion did the Court of Appeals preclude, even implicitly, the granting of mandatory injunc-

tive relief. Accordingly, the proposed order is not inconsistent with the Court of Appeals opinion.

Third, defendant argues that there is no precedent in this circuit supporting recall in situations such as the case at hand. Defendant's attempt to distinguish the case at hand from Kiki Undies Corp. v. Promenade Hosiery Mills, Inc., 308 F. Supp. 489 (S.D.N.Y. 1969), is unpersuasive. In Kiki, the court ordered the defendant to exercise its best efforts to withdraw all of its infringing materials from its customers, retailers and all others. The court explained that this provision was not unduly burdensome, since it required only good faith compliance and was necessary to protect against continued, albeit unintentional, infringement. Defendant's suggestion that recall provisions are appropriate only in cases involving "flagrant violations" or "actual

deception and confusion" is without support. In any case, deception and confusion is apparent in the case at hand where not only plaintiff's and defendant's J-Boards are very similar, but also defendant deliberately copied the J-Board being used by plaintiff.

Fourth, defendant argues that plaintiff's proposed order would cause defendant undue expense. Defendant's offer of proof to support its claim of undue expense was questionable, at best. Rather than submitting supporting affidavits, defendant's president made an unsworn statement to the court relating to conversations with defendant's mail department and traffic manager. Any conclusion to be drawn of undue expense is certainly unsupported by the record. In fact, an affidavit submitted by plaintiff estimated a cost of only $25,700 for a recall program.

Fifth, defendant argues that plain-

tiff has "unclean hands," having been adjudged to have committed libel and slander against defendant. Defendant somehow overlooks the fact that plaintiff's motion for a new trial of defendant's libel and slander claims has been granted by the court.

Finally, it should be noted that the recall provision should apply to defendant's Exhibits A, B, C, and D. Defendant's claim that Exhibit C represents a "new" non-infringing format deifes all logic. The similarity between Exhibit C and the infringing Exhibits A and B is self-evident. Exhibit D represents a similar format. While Exhibit D is somewhat different from Exhibits A, B, and C, that fact alone will not exempt Exhibit D from recall. Exhibit D is a flagrant attempt by defendant to trade upon the goodwill which it had previously appropriated by virtue of unfair competition. Exhibit D

is so reminiscent of Exhibits A, B, and C, as well as plaintiff's trade dress, that it continues to accord defendant some of the same unfair advantage it previously enjoyed. See, e.g., Kimberly Knitwear, Inc. v. Kimberly Stores Inc. of Mich., 331 F. Supp. 1339, 1341 (W.D. Mich. 1971).

For the reasons stated above, the court is entering the accompanying order of this date.

Dated: New York, New York
May 19, 1980

SO ORDERED.

/s/
CONSTANCE BAKER MOTLEY
U. S. D. J.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

PERFECT FIT INDUSTRIES, INC.	:	(USDC Seal) Filed
Plaintiff,	:	May 19 1980
v.	:	S.D. of N.Y.
ACME QUILTING CO., INC.	:	77 Civ. 2004 80
Defendant.	:	

ORDER

Pursuant to the Judgment rendered by the United States Court of Appeals for the Second Circuit on February 26, 1980 in Appeal No. 79-7329, it is hereby ordered:

1. That defendant, its officers, agents, servants, employees and attorneys and all persons acting in active concert or participation with them who receive actual notice of the order are hereby enjoined from use of the trade dress exemplified by Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto;

2. That defendant deliver up to

counsel for plaintiff for destruction by such counsel within fifteen (15) days from the date of entry of this Order, all package inserts, all advertising materials, catalogues, promotional materials, and any other written material in its possession, custody or control which comprises and/or illustrates the trade dress exemplified Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto;

3. That defendant within fifteen (15) days from the date of entry of this Order, send to each distributor, jobber, wholesaler or other customer to whom defendant has, at any time within the six month period preceding entry of this Order, distributed any package inserts of the type exemplified by Plaintiff's Exhibits 2 and 3, and any trade dress which is substantially similar thereto, a letter, by certified mail, return receipt re-

quested, in the form of the letter annexed hereto as Exhibit A, with each of said letters to be accompanied by a copy of this Order and send to counsel for plaintiff a carbon copy of each such letter;

4. That defendant deliver up to counsel for plaintiff for destruction by such counsel within forty-five (45) days from the date of entry of this Order all package inserts returned to defendant by each distributor, jobber, wholesaler or other customer in accordance with the letters sent pursuant to paragraph 3 of this Order;

5. The plaintiff, as the prevailing party, is awarded its costs incurred in this action.

/s/Constance Baker Motley
U.S.D.J.

Date: May 19, 1980

MICROFILM May 22 1980

[The letter annexed to the above order is reproduced supra in n.4, pp. A33-4.]

APPENDIX F

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PERFECT FIT INDUSTRIES, INC.,

Plaintiff,

-against-

77 Civ. 2004

ACME QUILTING CO., INC.,

Defendant.

ORDER

Defendant Acme Quilting Co., Inc. has moved by order to show cause for a stay of the court's order of May 19, 1980. For the reasons set forth below and in the court's memorandum opinion of May 19, 1980, the court concludes that there is no substantial question of law to be reviewed on appeal and that defendant's motion for a stay must be denied. Accordingly, it is hereby

ORDERED that defendant's motion for a stay, insofar as it requests a stay with respect to Exhibit A, is denied on the

ground that injunctive relief against further use of Exhibit A is mandated by the opinion of the Court of Appeals dated February 26, 1980; it is further

ORDERED that defendant's motion for a stay, insofar as it requests a stay with respect to Exhibits B, C, and D, is denied on the ground that the court made the finding of fact in its May 1[illegible], 1980, memorandum opinion, following a hearing and briefing by the parties, that Exhibits B, C, and D were similar to Exhibit A and represented an attempt by defendant to trade upon the goodwill which it had previously appropriated by virtue of unfair competition; it is further

ORDERED that defendant's motion for a stay, insofar as it requests a stay with respect to the "recall" provisions -- paragraphs 3 and 4 -- of the court's May 19, 1980, order, is denied on the ground that these provisions are authorized by the

broad equitable powers of this court and are appropriate under the circumstances of this case; it is further

ORDERED that defendant's motion for a stay, insofar as it requests a stay or adjournment of the court's June 20, 1980 hearing on plaintiff's contempt motion is denied; and it is further

ORDERED that defendant's motion for a stay, insofar as it requests a stay in any other respects, is denied.

Dated: New York, New York
June 19, 1980

SO ORDERED.

/s/
CONSTANCE BAKER MOTLEY
U. S. D. J.

APPENDIX G

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PERFECT FIT INDUSTRIES, INC.,

Plaintiff,

-against-

77 CIV. 2004

ACME QUILTING CO., INC.,

Defendant.

APPEARANCES:

SEIDEL, GONDA, GOLDHAMMER & PANITCH
By: Roberta L. Jacobs
[Of Counsel]
Suite 600
Three Penn Center Plaza
Philadelphia, Pennsylvania 19102
Attorneys for Plaintiff

STANLEY SCHINDLER
HERBERT MONTE LEVY
9 East 40th Street
New York, New York 10016

Attorneys for Defendant

CONSTANCE BAKER MOTLEY, D. J.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Perfect Fit has moved: 1) to hold Acme in contempt of court for its failure to comply with the court's order entered May 19, 1980; and 2) to refer this matter to a master for the purpose of conducting discovery to determine the full extent of defendant's violation.

After a hearing on June 23, 1980, the court made its findings of fact on the record which are incorporated herein by reference. The following constitutes the court's conclusions of law:

Civil contempt has a remedial purpose — compelling obedience to an order of the court for the purpose of enforcing the other party's rights, or obtaining other relief for the opposing party. International Business Machines Corp. v. United States, 493 F.2d 112, 115 (2d Cir. 1973), cert. denied, 416 U. S. 995 (1974). On a civil contempt motion, the fundamental question is whether the conduct com-

plained of was in fact prohibited (or required) by the court's decree; no finding of wilfulness or wrongful intent is necessary. Hospital Ass'n of New York State, Inc. v. Toia, 428 F. Supp. 848, 851 (S.D.N.Y. 1977). Again, a violation need not be wilful for a party to be found in civil contempt. NLRB v. Local 282, Int'l Brotherhood of Teamsters, 428 F.2d 994, 1001 (2d Cir. 1970).

Mailing constitutes sufficient and appropriate notice; moreover, a defendant is charged with the responsibility to follow the progress of the litigation and advise himself when the court makes an order against which he wishes to protest. MCA, Inc. v. Wilson, 425 F. Supp. 457, 459 (S.D.N.Y. 1977). In any case, a person is in contempt of court if he knowingly violates a court order, whether or not he received a formal notice. Fidelity Mortgage Investors v. Camelia Builders, Inc., 550

F.2d 47, 52 (2d Cir. 1976), cert. denied, 429 U. S. 1093 (1977).

A court order must be obeyed, even assuming its invalidity, until it is properly set aside. Leighton v. Paramount Pictures Corp., 340 F.2d 859, 861 (2d Cir.), cert. denied, 381 U. S. 925 (1965). Thus, the validity of an order issued by a court of competent jurisdiction is not open to collateral attack in a contempt proceeding based on disobedience of that order. Backo v. Local 281, United Brotherhood of Carpenters & Joiners, 308 F. Supp. 172, 176-77 (N.D.N.Y. 1969), aff'd, 438 F.2d 176 (2d Cir. 1970), cert. denied, 404 U. S. 858 (1971). It has been stated that "[t]hose who disobey a court order do so at their peril, whether or not the order is valid, so long as the court issuing it has valid jurisdiction." Id.

In short, upon proceedings to punish for contempt, the propriety of the decree

is not open, even though it be founded upon an unconstitutional statute. Alemite Manufacturing Corp. v. Staff, 42 F.2d 832, 833 (2d Cir. 1930). The defendant may only deny any knowledge of the decree, or that his act was within it. Id.

Here, the court has found that 1) the Clerk of this Court mailed a copy of this court's order to defendant on May 19, 1980; 2) the Clerk mailed a copy of this court's opinion to defendant on May 20, 1980; 3) the New York Law Journal published notice as to both the order and opinion on May 22, 1980; 4) defendant's counsel, Mr. Stanley Schindler, learned of the entry of the order from the Law Journal on or about May 22, 1980; 5) Mr. Schindler received a copy of the court's opinion and order from plaintiff's counsel on or about June 3, 1980; 6) the order of this court has not been obeyed in any respect by defendant although it had full

knowledge of the entry of same since May 22, 1980; 7) there was no agreement on the part of plaintiff's counsel, Miss Jacobs, to consent to a stay of the injunctive order of this court of May 19, 1980, pending appeal, or to allow time to petition for a stay in this court or the Court of Appeals, or to postpone the hearing on plaintiff's motion to hold defendant in contempt for a few weeks until defendant's new counsel, who is assisting Mr. Schindler with the instant motion and is counsel to defendant on appeal, was prepared; 8) the order of this court of May 19, 1980 is clear and unambiguous, and defendant is well aware of what is meant by Plaintiff's Exhibits 2 and 3 referred to therein since Mr. Ratner, defendant's president, was present at the trial of this action when those exhibits were introduced, testified on the trial, and was present each time the court heard the parties on the issuance of the

injunctive order and took part therein when Mr. Schindler presented and furnished additional J-Boards on the hearing which the court found confusingly similar.

The defendant is directed to comply with the court's order of May 19, 1980, in accordance with the deadlines set forth in the order accompanying this memorandum opinion.

Dated: New York, New York
June 24, 1980

SO ORDERED.

/s/

CONSTANCE BAKER MOTLEY

U. S. D. J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PERFECT FIT INDUSTRIES, INC.,

Plaintiff,

-against-

ACME QUILTING CO., INC.,

Defendant.

77 Civ. 2004

ORDER

In accordance with the court's memorandum opinion of this date, it is hereby

ORDERED that the defendant is held in contempt of court for its failure to comply with the order entered May 19, 1980; it is further

ORDERED that the defendant shall have until Friday, June 27, 1980, to comply with paragraphs 1, 2, and 3 of the court's order of May 19, 1980; it is further

ORDERED that the defendant shall have until Monday, July 28, 1980, to comply

with paragraph 4 of the court's order of May 19, 1980; and it is further

ORDERED that the defendant shall be fined $5,000 each day that defendant fails to comply with the June 27, 1980 and July 28, 1980 deadlines discussed above.

Dated: New York, New York
June 24, 1980

SO ORDERED.

/s/
CONSTANCE BAKER MOTLEY
U. S. D. J.

APPENDIX H

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PERFECT FIT INDUSTRIES, INC., Plaintiff,	:	(USDC Seal) Filed Oct 20 1981
-against-	:	77 CIV. 2004 (CBM)
ACME QUILTING CO., INC., Defendant.	:	OPINION #52272

APPEARANCES

SEIDEL, GONDA, GOLDHAMMER & PANITCH
By: Arthur H. Seidel
Roberta L. Jacobs
Suite 600
Three Penn Center Plaza
Philadelphia, Pennsylvania 19102
Attorneys for Plaintiff

STANLEY SCHINDLER
HERBERT MONTE LEVY
9 East 40th Street
New York, New York 10016

Attorneys for Defendant

CONSTANCE BAKER MOTLEY, D. J.

MEMORANDUM OPINION

This is an action by Perfect Fit Industries, Inc. (plaintiff) for an order enjoining Acme Quilting Co. (defendant) from further use of a trade dress deliberately copied from one marketed by plaintiff in the sale of mattress covers. The action has already engendered four opinions from this court and two from the Court of Appeals.[1/] It has also resulted in the issuance of a permanent injunction against defendant (Order of May 19, 1980). This court issued an order, after a hearing, finding defendant in contempt of the May 19, 1980 Order and providing defendant with an opportunity to purge itself of contempt but also providing for the imposition of a $5,000 a day fine if defendant did not comply with the court's permanent injunction within the time allotted (Order of June 24, 1980). The instant opinion is issued to clarify the purpose and basis of the fine provided for in the Order of June

24, 1980, as required by the Court of Appeals in upholding the contempt citation.

The Fine

The Order of June 24, 1980 provided that defendant was to pay the daily fine in the event that it failed to comply by June 27, 1980, with paragraphs 1-3 of the Order of May 19, 1980, or if it failed to comply by July 28, 1980, with paragraph 4 of the Order of May 19, 1980. In the event of failure to comply by these deadlines, the order provided that defendant would be subject to a fine of $5,000 per day until compliance.

Purpose of the Fine

As the Supreme Court has ruled, "[j]udicial sanctions in civil contempt proceedings may, in a proper case, be employed for either or both of two purposes: to coerce the defendant into compliance with the court's order, and to compensate

the complainant for losses sustained." United States v. United Mine Workers of America, 330 U.S. 258, 303-04 (1947). The intent of this court in imposing a contingent fine of $5,000 per day in the Order of June 24, 1980, was to coerce the defendant into compliance with the Order of May 19, 1980 as revised by the Order of June 24, 1980. This court found that defendant had wilfully failed to even inform itself of the provisions of the final injunctive order which it knew had been entered. A more brazen contempt of court would be difficult to come by.

Although the intent of the Order of June 24, 1980 was, in part, to prevent additional future damage to plaintiff by inducing compliance with the Order of May 19, 1980, there was no intention to compensate plaintiff for any damage it had suffered to that date. Thus, it could not properly be called a compensatory fine.

Conditional or contingent and coercive penalties to generate compliance with orders which have been violated are established remedies for contempt. See, e.g., National Labor Relations Board v. J. P. Stevens & Co., 563 F.2d 8 (2d Cir. 1977) cert. denied, 434 U.S. 1064 (1978); International Business Machines Corporation v. United States, 493 F.2d 112 (2d Cir. 1973) cert. denied, 416 U.S. 995 (1974). As this court's Order of May 19, 1980 had not been complied with, this court considered a contingent fine to be an effective and appropriate remedy for the contempt. Thus, the fine is properly denominated a coercive fine.

Basis of the Fine

The considerations the court employed in assessing the fine on defendant were as follows:

A. Magnitude of the harm threatened

by continued noncompliance.

At the contempt hearing held June 23, 1980, this court had before it ample evidence of defendant's noncompliance with the Order of May 19, 1980. Indeed, defendant's counsel stated at that hearing that he was unaware of any steps taken toward compliance.[2/] Defendant neither introduced any evidence to show compliance with the order nor offered a valid excuse for noncompliance. It was the judgment of this court that compliance with the May 19, 1980 order could be achieved only through economic sanction. It was also the judgment of this court that continued disrespect, and indeed contempt, for the orders of the court, if not effectively sanctioned would result in grave harm to the judicial process itself. This harm was of a high magnitude and called for a stiff penalty.

This court found, prior to the Order

of June 24, 1980, that defendant had intentionally copied plaintiff's trade dress, 484 F. Supp. at 644. The Second Circuit held that Acme's trade dress was likely to cause confusion among customers. 618 F.2d at 954-55. Thus, when the orders of this court were issued, the infringing trade dress was likely to divert customers from plaintiff's product to defendant's. Evidence presented to this court also showed that defendant had approximately 20% of the market in the mattress pad industry which collectively sold approximately 20 million pads in 1977 alone.[3/] In fact, defendant did over $20,000,000 of business in 1978.[4/] Due to the relative size of defendant in its industry, and the amount of defendant's sales, defendant had the market power to inflict great damage on plaintiff by means of the infringing trade dress. In view of the great potential harm to plaintiff, this court, deemed

it necessary to fashion a remedy which would take effect quickly. The Second Circuit found this "entirely justified." 646 F.2d at 807. When defendant had not complied by June 23, 1980, the magnitude of injury to plaintiff was compounded by the length of time that passed from the time of the May 19 Order. It was the court's judgment that the magnitude of harm to plaintiff of continued non-compliance by defendant was great.

In sum, this court viewed noncompliance with the court's orders with the utmost gravity due to the harm caused plaintiff by defendant's noncompliance and the harm to the judicial system of a party's deliberatly [sic] choosing to ignore an injunctive order of the court (which had been directed by the Court of Appeals) to the extent of not even informing itself of the contents of the order. This court determined that either type of harm was suf-

ficient to sustain the fine as levied.

B. The probable effectiveness of the sanction to bring about the desired result.

It was the judgment of this court that the sanction of a significant contingent daily fine was the most effective way to achieve quick compliance with the orders. As defendant is a business enterprise, economic sanctions are the most appropriate and effective remedies for contempt. The fine included in the Order of June 24, 1980, would make it economically unwise for defendant to continue to ignore the provisions of the previous court orders.

As to the effectiveness of the procedure included in the Order of May 19, 1980, to achieve its desired result, the recall procedure employed therein "would naturally hasten the removal of the offending materials from public view, and

[in the opinion of this court] end quickly the injury to Perfect Fit." See Perfect Fit Industries v. Acme Quilting, 646 F.2d 800, 807.

C. The seriousness of the burden on defendant.

The final factor considered in assessing the amount of the contingent fine to levy was the seriousness of the burden that would be placed upon defendant. To prevent any possible burden from becoming oppressive, the court did the following: 1) it first eased the schedule for compliance contained in the original order; 2) it then provided for a fine which would be prospective only; 3) it provided for the fine to take effect only if the revised schedule was not met, and, finally; 4) it provided that the fine continue only until compliance was effected.

The court aimed for a fine most suited to induce quick compliance without

creating an undue burden on defendant. In addition to the factors already discussed in (A), (B) and (C) above, the court considered the following factors:

1. The size of defendant's sales. With 20% of the market, and sales in pre-1980 years exceeding twenty million dollars per year, defendant is not a small company. The burden of a $5,000-a-day-until-compliance fine is not so great as to be confiscatory. Further, given the willful nature of defendant's conduct, a small fine would not have secured compliance.

2. The cost of compliance. According to defendant's own estimate, the cost of compliance with the court's order would be in the range of $50,000-$100,000 (note the Court of Appeals' discussion of this at 646 F.2d at 807, footnote 8). Therefore, imposition of a $5,000-a-day contingent fine would obviously make it more

economical for defendant to comply with, rather than to ignore the court's order.

As compliance was the desired result, it was the judgment of this court that the fine as imposed, contingent, yet substantial, would be the most effective remedy for defendant's contempt.

Dated: New York, New York
October 20, 1981

SO ORDERED

/s/
CONSTANCE BAKER MOTLEY
U. S. D. J.

FOOTNOTES

1. Prior opinions in the case of Perfect Industries, Inc. v. Acme Quilting Co., Inc., in chronological order, may be located as follows:

   a. 484 F.Supp. 643; 203 U.S.P.Q. 481 (S.D.N.Y. 1979).

   b. 494 F.Supp. 505 (S.D.N.Y. 1980).

   c. 618 F.2d 950; 205 U.S.P.Q. 297 (2d Cir. 1980).

   d. 77 Civ. 2004, (CBM) Opinion No. 50080 (May 20, 1980).

   e. 77 Civ. 2004, (CBM) Opinion No. 50236 (June 24, 1980).

   f. 646 F.2d 800; 210 U.S.P.Q. 175; 31 F.R. Serv. 2d 882 (2d Cir. 1981).

2. Text of Transcript, June 23, 1980, p. 40; 43-44; 73-74.

3. Text of Transcript, October 31, 1979, p. 380-381.

4. Text of Transcript, October 31, 1979, p. 90.

Office - Supreme Court, U.S.
FILED
JAN 4 1982
ALEXANDER L. STEVAS,
CLERK

No. 81-2234

IN THE

Supreme Court of the United States

October Term, 1981

ACME QUILTING CO., INC.,
Petitioner,

vs.

PERFECT FIT INDUSTRIES, INC.,
Respondent.

MEMORANDUM IN RESPONSE TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

ARTHUR H. SEIDEL
SEIDEL, GONDA, GOLDHAMMER
& PANITCH, P.C.
600 Three Penn Center Plaza
Philadelphia, Pennsylvania 19102
Tel.: (215) 568-8383
Attorney for Respondent

Of Counsel:
ROBERTA L. JACOBS
SEIDEL, GONDA, GOLDHAMMER
& PANITCH, P.C.
600 Three Penn Center Plaza
Philadelphia, Pennsylvania 19102
Tel.: (215) 568-8383

Roberts Terry Publishing Co.
Philadelphia, Pa. (215) 563-7101

TABLE OF CONTENTS.

	Page
Parties to the Proceeding	1
Counter-Statement of the Questions Presented	1
Statute Involved	2
Statement of the Case	3
Reasons for Denying the Writ	6
Point I—There is no reason for review by this Court of the first appellate decision	6
The petition is untimely	10
Point II—There is no reason for review by this Court of the discretionary remedy of recall	10
Point III—There is no reason for review by this Court of the imposition of a contingent coercive fine as a remedy for willful contempt of Court	14
Point IV—There is no reason for review by this Court of the protracted factual record because of frivolous allegations of a deprivation of due process by a petitioner which has enjoyed more than its day in court but is displeased with the results below	16
Conclusion—The petition is addressed to the Court's discretion, and such discretion should not be exercised to review the decisions below	17
Appendix	19
Exhibit 1—Appendix in Appeal No. 79-7329, Pages A124-A129 and A175-A178	19
Exhibit 2—Appendix in Appeal Nos. 80-7489, 7585, 7587, Pages 196a-198a	26

Page

Exhibit 3—Affidavit of Roberta L. Jacobs dated May 7, 1981 29

Exhibit 4—1982 Committee Report of Section of Patent, Trademark and Copyright Law of the American Bar Association, Page 134 32

Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004(CBM), Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089..... 35

TABLE OF AUTHORITIES.

CASES.

American Chicle Co. v. Topps Chewing Gum, 208 F.2d 560, 563 (2d Cir., 1953)..... 9

American Optical Co. v. Rayex Corp., 291 F.Supp. 502, 504-505 (S.D.N.Y., 1967), aff'd, 394 F.2d 155 (2d Cir., 1968)..... 11,12

Andre Matenciot, Inc. v. David & Dash Inc., 422 F.Supp. 1199, 1204-1205 (S.D.N.Y., 1976) 11

Carolina Enterprises, Inc. v. Coleco Industries, Inc., 211 U.S.P.Q. 479, 488 (D.N.J., 1981)..... 11

Chevron Chemical Company v. Voluntary Purchasing Groups, Inc., 659 F.2d 695, 702-703 (5th Cir., 1981) 7

Clairol Incorporated v. Shapiro, 158 U.S.P.Q. 427 (C.D. Cal., 1968)..... 11

Commerce Foods Inc. v. P.L.C. Commerce Corporation, 504 F.Supp. 190, 193 (S.D.N.Y., 1980)..... 7

Crane Company v. American Standard, Inc., 603 F.2d 244, 253-254 (2d Cir., 1979) 4

Darby Drug Co., Inc. v. Ives Laboratories, Inc., 50 U.S.L.W. 4592 (U.S. June 1, 1982)..... 8

Page

Dawn Associates v. Links, 203 U.S.P.Q. 831, 837 (N.D. Ill., 1978) 11

Feathercombs, Inc. v. Solo Products Corp., 306 F.2d 251, 258 (2d Cir.), cert. denied, 371 U.S. 910 (1962) 8

Fisher-Price Toys v. My-Toy Co., Inc., 385 F.Supp. 218, 223 (S.D.N.Y., 1974) 11

Greenberg v. Croydan Plastics Co., Inc., 84 U.S.P.Q. 27, 28 (E.D. Pa., 1974) 11

Guaranty Trust Company of New York v. York, 326 U.S. 99, 105-106, reh. denied, 326 U.S. 806 (1945). 12

Harlequin Enterprises Limited v. Gulf & Western Corporation, 644 F.2d 946, 950 (2d Cir., 1981) 7,9

Harris Truck Lines Inc. v. Cherry Meat Packers Inc., 371 U.S. 215, 83 S.Ct. 283, 9 L.Ed.2d 261 (1962) 13

Hecht Co. v. Bowles, 321 U.S. 321, 329, 64 S.Ct. 587, 88 L.Ed. 754 (1944) 10,11

Howw Manufacturing Inc. v. Formac Inc., 213 U.S.P.Q. 793, 796 (N.D. Ill., 1981) 9

Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 50 U.S.L.W. 4592 (U.S. June 1, 1982) 8,16

Jovan Inc. v. A.R. Winarick, Inc., 202 U.S.P.Q. 75, 76 (N.D. Ill., 1978) 11

Kiki Undies Corporation v. Promenade Hosiery Mills Inc., 308 F.Supp. 489, 495 (S.D.N.Y., 1969), on remand from 411 F.2d 1097 (2d Cir., 1969), cert. denied, 396 U.S. 1054 (1970) 11,12

Maternally Yours, Inc. v. Your Maternity Shop, Inc., 234 F.2d 538 (2d Cir., 1956) 9

Mother's Restaurants Incorporated v. Mother's Bakery Inc., 498 F.Supp. 847, 851 (W.D.N.Y., 1980) 7

Nik-Nik Industries, Inc. v. Walt Disney Productions, Inc., 194 U.S.P.Q. 108, 110 (S.D.N.Y., 1976) 11

Page

NLRB v. Pittsburgh S.S. Co., 340 U.S. 498, 502-503 (1951) 16

Rea v. Ford Motor Co., 560 F. 554, 557 (3d Cir.), cert. denied, 434 U.S. 923 (1977) 13

Santa's Workshop, Inc. v. Sterling, 282 App. Div. 328, 329-330, 122 N.Y.S. 2d 488, 489 (1953), aff'd, 3 N.Y. 2d 757, 143 N.E. 2d 529, 163 N.Y.S. 2d 986 (1957) 8

Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232, reh. denied, 376 U.S. 973 (1964) 6

Sweetarts v. Sunline, Inc., 299 F.Supp. 572, 577 (E.D.Mo., 1969), aff'd, 436 F.2d 705 (8th Cir., 1971) 11

Synercom Technology Inc. v. University Computing Company, 462 F.Supp. 1003, 1015 (N.D. Tex., 1978) 11

Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 315 F.Supp. 45, 57 (S.D.N.Y., 1970), aff'd, 437 F.2d 566 (2d Cir., 1971) 11

Travelodge Corporation v. Siragusa, 228 F.Supp. 238, 241 (N.D. Ala., 1964), aff'd, 352 F.2d 516 (5th Cir., 1965) 9

United Mine Workers of America v. Gibbs, 383 U.S. 715, 726, 86 S.Ct. 1130, 1139, 16 L.Ed.2d 218 (1966) 4

United States v. Johnson, 268 U.S. 220, 227 (1925) 17

United States v. United Mine Workers, 330 U.S. 258, 303, 304, 67 S.Ct. 677, 701, 91 L.Ed. 884 (1947) 14,15

Page

CONSTITUTION.

United States Constitution, Amendment V:
15 U.S.C. 1125(a) 2,3,4
28 U.S.C. §1338(b) 2,4

TEXT.

Subcommittee C of Committee 205 (Unfair Competition—Trade Identity) of the Section of Patent, Trademark and Copyright Law of the American Bar Association in the 1982 Committee Reports (134) 12

IN THE

Supreme Court of the United States

No. 81-2234

ACME QUILTING CO., INC.,

Petitioner,

vs.

PERFECT FIT INDUSTRIES, INC.,

Respondent.

MEMORANDUM IN RESPONSE TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Parties to the Proceeding

Respondent, Perfect Fit Industries, Inc. is a subsidiary of Perfect Fit International, Inc.

Counter-Statement of the Questions Presented

Respondent submits that the questions presented for review by the Petition for Writ of Certiorari to the United States Court of Appeals for the Second Circuit (hereinafter referred to as the "Petition") should properly be stated as follows:

1.a. Whether the State of New York through the common law of unfair competition may enjoin deliberate copying of distinctive and memorable trade dress, based

on a Finding of Fact that the deliberate copying gives rise to a likelihood of confusion.

1.b. Whether the United States Court of Appeals for the Second Circuit correctly applied the New York law of unfair competition in enjoining such deliberate copying.

2. Whether a United States District Court may as a matter of equity upon careful review of a protracted factual record, order one found guilty of unfair competition in the nature of trade dress infringement to recall from its distributors the infringing trade dress and insignificant variations on the infringing trade dress.

3. Whether a United States District Court may, in the exercise of its discretion, upon careful review of a protracted factual record, impose upon a contemner having sales of 20 million dollars per year which has been found to have willfully ignored an Order of the Court, a contingent, coercive fine of $5,000.00 per day.

Statute Involved

Respondent submits that the U.S. Constitution, Amendment V, and 15 U.S.C. 1125(a) are not involved in this proceeding. The only statute involved in this proceeding is 28 U.S.C. §1338(b):

> "The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws."

Statement of the Case

This proceeding involves the effort of a willful infringer who deliberately copied the distinctive, memorable and commercially successful trade dress of a major competitor to avoid the just and proper consequences of that action.

Contrary to the assertion set forth at page 3 of the Petition, Perfect Fit Industries, Inc. ("Perfect Fit") commenced this action based on the claim that Acme Quilting Co., Inc. ("Acme") had, in violation of copyright law, infringed a quilting design entitled "Le Fleur" owned by Perfect Fit. Subsequently, the Complaint was amended to claim that Acme, by copying Perfect Fit's trade dress, had violated the common law of unfair competition and 15 U.S.C. §1125(a).

After trial on the merits, the District Court entered judgment for Acme on both claims holding that Perfect Fit failed to prove secondary meaning and failed to prove that Acme engaged in a predatory practice condemned by New York State law (Appendix D to the Petition, A93-A94). The District Court found that Acme had engaged in deliberate copying at the inception of Perfect Fit's major marketing campaign to trade on the good will engendered by Perfect Fit's honest commercial activities (Appendix D to the Petition, A80).

The Second Circuit Court of Appeals reversed without dissent the judgment dismissing the Complaint and remanded so an injunction might be entered. The reversal was based on the New York common law of unfair competition. With respect to Perfect Fit's appeal from the dismissal of its claim under 15 U.S.C. §1125(a), and its contention that the District Court had erred in holding that Perfect Fit was required to establish, but had not

established, secondary meaning in its trade dress, the Court of Appeals made no finding, stating (Appendix A to the Petition, A12):

> "We conclude that under New York law, Perfect Fit was not required to prove secondary meaning in order to obtain relief from Acme's infringing trade dress. We also find that Perfect Fit made a sufficient showing of likelihood of confusion to warrant injunctive relief, but that it did not demonstrate entitlement to any other relief. We do not reach any of the other issues raised by the parties."

Acme's position that the dismissal of Perfect Fit's claim under 15 U.S.C. §1125(a) deprived the District Court of jurisdiction to resolve Perfect Fit's common law claim is simply untenable. 28 U.S.C. §1338(b) and *United Mine Workers of America v. Gibbs*, 383 U.S. 715, 726 (1966) provide ample basis for the discretionary retention of jurisdiction over the state claim subsequent to trial on the merits. See, also, *Crane Company v. American Standard, Inc.*, 603 F.2d 244, 253-254 (2d Cir., 1979).

On remand, the District Court conducted an evidentiary hearing. This willful infringer* asserted to the District Court that packaging with insignificant and trivial variations was wholly new, non-infringing trade dress (Appendix E to the Petition, A101). The Court considered the variations, affidavits and memoranda submitted by the parties prior to granting on May 19, 1980 the Order, including the recall provision, subsequently affirmed by the Court of Appeals.

---

* The finding of fact by the District Court that Acme deliberately copied Perfect Fit's distinctive and memorable trade dress was based on the testimony of the artist who "created" the infringing trade dress, and entailed the rejection of the testimony proferred by Acme's principal who denied the copying. Compare A124-A129 and A175-A178 in the Appendix in Appeal No. 79-7329 (Exhibit 1, annexed hereto).

This willful infringer disdained to inform itself of the provisions of the May 19 Order it knew had been entered. It brazenly alleged lack of notice as an excuse for its willful non-compliance with the Order of the District Court.

When Acme failed to comply with the May 19 Order, Perfect Fit filed a Motion for Contempt. The District Court again held an evidentiary hearing, considered memoranda submitted by the parties and carefully reviewed the protracted record in the proceeding before holding Acme in contempt and assessing a contingent, coercive fine of $5,000.00 per day for each day of non-compliance with a revised Order.

This same willful infringer delayed the hearing on the motion for contempt [196a-198a, Appendix in Appeal Nos. 80-7489, 7585, 7587 (Exhibit 2, annexed hereto)], has thwarted discovery as to the manner and extent of its compliance with the Order of the District Court entered June 24, 1980 [Jacobs Affidavit of May 7, 1981, ¶2-5 (Exhibit 3, annexed hereto)], and now raises for the first time in footnote 2 at page 9 of the Petition a myriad of unsupported excuses for its failure to comply with the letter and the spirit of such Order.

The Court of Appeals, on the second appeal, after careful review of the record, including exhibits, affirmed the award of injunctive relief and the finding of contempt without dissent. It vacated and remanded the portion of the Order relating to the contingent coercive fine, so that the District Court might explain the basis for such fine.

On remand, the District Court carefully considered all of the factors held by this Court to be appropriate (Appendix H to the Petition, A125-A132) and entered an opinion setting forth the basis for the $5,000.00 a day con-

tingent, coercive fine. On this basis (Appendix C to the Petition, A73-A74), the Court of Appeals upheld the fine as within the exercise of the sound discretion of the District Court, again without dissent.*

The petitioner before this Court is a willful infringer seeking license to perpetuate distribution and sale of product in infringing trade dress already found to create a likelihood of confusion.

REASONS FOR DENYING THE WRIT

POINT I

There is no reason for review by this Court of the first appellate decision.

The alleged question of whether an injunction may issue in an unfair competition case in the absence of secondary meaning, and in the absence of proof of actual confusion, raises no federal issue in the context of this proceeding. The Court of Appeals did not reach the question of whether any relief was justified on the basis of federal law. The Court of Appeals based its holding on New York State law.

This Court has, in any event, already decided the issue posed, and the decision of which Acme complains is consistent with this Court's holding in *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232, reh. denied, 376 U.S. 973 (1964):

---

* Acme's assertion at Footnote 1 of the Petition that Perfect Fit and Acme are attempting to resolve amicably the issue of the fine is inaccurate. Perfect Fit has filed a second motion to hold Acme in contempt, and has received authorization from the District Court to employ an independent auditor to review the books and records of Acme to determine whether and to what extent Acme complied with the May 19 and June 24, 1980 Orders of the District Court.

> "Doubtless *a State may*, in appropriate circumstances, require that goods whether patented or unpatented, be labeled or that other precautionary steps be taken to *prevent customers from being misled as to* the source, just as it may protect businesses in the use of their trademarks, labels, or *distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods.* But because of the federal patent laws a state may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying." [Emphasis added].

The Second Circuit Court of Appeals found, based on New York State law, that deliberate copying of distinctive trade dress giving rise to a likelihood of confusion is subject to injunction irrespective of any finding of secondary meaning. The Court of Appeals relied upon authority both from the New York State and from the Federal courts interpreting New York State law. This interpretation of New York State law has subsequently been accepted by other courts within and without the Second Circuit. See, *Harlequin Enterprises Limited v. Gulf & Western Corporation*, 644 F2d 946, 950 (2d Cir., 1981); *Mother's Restaurants Incorporated v. Mother's Bakery Inc.*, 498 F.Supp. 847, 851 (W.D.N.Y., 1980); *Commerce Foods Inc. v. P.L.C. Commerce Corporation*, 504 F.Supp. 190, 193 (S.D.N.Y., 1980); *Chevron Chemical Company v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 702-703 (5th Cir., 1981):

> "... as the Second Circuit Court of Appeals explained in Perfect Fit Industries Inc. v. Acme Quilting Co., 618 F.2d 950, 952-953 (2d Cir., 1980), applying New York law, the number of non-functional words and symbols available for use by later comers in the

marketing of their products is unlimited. Similarly, the possible varieties of advertising display and packaging are virtually endless. *The principle question, therefore, is whether or not the public is likely to be confused, rather than the first comer's trade dress has acquired secondary meaning.*" [Emphasis added].

With respect to the New York law of unfair competition, this law is and has been established. See, *Santa's Workshop, Inc. v. Sterling*, 282 App. Div. 328, 329-330, 122 N.Y.S. 2d 488, 489 (1953), aff'd, 3 N.Y. 2d 757, 143 N.E. 2d 529, 163 N.Y.S. 2d 986 (1957); *Feathercombs, Inc. v. Solo Products Corp.*, 306 F.2d 251, 258 (2d Cir.), cert. denied, 371 U.S. 910 (1962). There is simply no need for this Court to resolve a question of state law or to determine whether the Court of Appeals correctly applied state law to the established facts of the proceeding.

Reversal of the established principles of unfair competition law in the State of New York would lead to the unwarranted and unacceptable situation in which a speedy "knock-off" artist occupies a more favorable position than a less fleet "knock-off" artist, although the activities of both create a likelihood of confusion and constitute an unwarranted invasion of property rights in distinctive and memorable trade dress.

Inwood Laboratories, Inc. v. Ives Laboratories, Inc. and *Darby Drug Co., Inc. v. Ives Laboratories, Inc.*, 50 U.S.L.W. 4592 (U.S. June 1, 1982) relied on in the Petition are wholly inapposite. Neither the issues presented in the *Ives* petitions (fair use of another's mark; rights in a product's color *per se*; circumstances in which generic drug manufacturers may be held vicariously liable for infringement by pharmacists who dispense the generic drug) nor the issues reached by this Court in the *Ives*

cases (failure of the Court of Appeals to give due deference to District Court's findings of fact) are related to the subject issues, namely, a factual finding of deliberate copying of trade dress found to be distinctive and memorable giving rise to a likelihood of confusion. In addition, what *Ives* did not involve and the instant case does involve is New York State's common law of unfair competition.

The tect of unfair competition is not and has never been actual confusion. *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir., 1956). Also, courts have consistently found substitutes for traditional proofs of "secondary meaning" to enjoin deliberate acts of unfair competition. See, *e.g.*, *Harlequin Enterprises Limited v. Gulf & Western Corporation*, 644 F.2d 946, 950 (2d Cir., 1981); and *Howw Manufacturing Inc. v. Formac Inc.*, 213 U.S.P.Q. 793, 796 (N.D. Ill., 1981):

> "The other way in which secondary meaning has been established in trade cases is by raising a presumption of secondary meaning where it is shown that a junior competitor has 'deliberately and closely imitated plaintiff's trade dress.' Scholl, Inc. v. Tops E.H.R. Corp., 185 U.S.P.Q. 754, 758 (E.D.N.Y. 1975); Clairol, Inc. v. Cosway Co., Inc., 184 U.S.P.Q. 583 (C.D. Cal. 1974)."

See, also, *American Chicle Co. v. Topps Chewing Gum*, 208 F.2d 560, 563 (2d Cir., 1953); *Travelodge Corporation v. Siragusa*, 228 F.Supp. 238, 241 (N.D. Ala., 1964), aff'd, 352 F.2d 516 (5th Cir., 1965).

The petition is untimely.

The petition was filed out of time with respect to the propriety of the finding of liability on the basis of New York State law. The question of liability, as opposed to the question of remedy, was finally decided by the Second Circuit Court of Appeals on February 26, 1980. Since more than 90 days have passed since the entry of such judgment, the petition is not timely and should be denied on that basis alone.

POINT II

There is no reason for review by this Court of the discretionary remedy of recall.

The gist of the Petitioner's second point is unclear. However, whether the issue claimed is the validity of recall or merely abuse of discretion, the issue is not one which warrants review of this proceeding by this Court.

The second point raised in the Petition relates to the decisions with respect to an equitable remedy entrusted initially to the discretion of the District Court. As the Court of Appeals noted (Appendix B to the Petition, A44):

> "It is well settled that the district court's equity jurisdiction empowers it 'to mould each decree to the necessities of the particular case.' *Hecht Co. v. Bowles*, 321 U.S. 21, 329, *et al.*, 64 S.Ct. 587, 88 L.Ed. 754 (1944) . . ."

In the instant proceeding, the District Court rendered the decision which is the subject of Point II based on a thorough familiarity with an extended factual record. Key elements of this factual record bearing on the exercise of discretion by the District Court are not fairly set forth in the Petition. See pages 3 to 6, *supra*.

There is, in any event, no Federal statutory or Constitutional question to be reviewed by this Court.

Notwithstanding the contention in the Petition at page 8 that no prior federal appellate court has "authorized" the remedy of a recall, *Hecht, supra*, is precedent that recall is a remedy within the discretion of the District Court. See, also, *Sweetarts v. Sunline, Inc.*, 299 F.Supp. 572, 577 (E.D.Mo., 1969), aff'd, 436 F.2d 705 (8th Cir., 1971). *Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 315 F.Supp. 45, 57 (S.D.N.Y., 1970), aff'd, 437 F.2d 566 (2d Cir., 1971).

There is also unchallenged authority from the District Courts granting recall as a discretionary remedy based upon the facts in each proceeding. *Kiki Undies Corporation v. Promenade Hosiery Mills Inc.*, 308 F.Supp. 489, 495 (S.D.N.Y., 1969), on remand from 411 F.2d 1097 (2d Cir., 1969), cert. denied, 396 U.S. 1054 (1970); *Clairol Incorporated v. Shapiro*, 158 U.S.P.Q. 427 (C.D. Cal., 1968); *Greenburg v. Croydan Plastics Co., Inc.*, 84 U.S.P.Q. 27, 28 (E.D. Pa., 1974); *Jovan Inc. v. A.R. Winarick, Inc.*, 202 U.S.P.Q. 75, 76 (N.D. Ill., 1978); *Dawn Associates v. Links*, 203 U.S.P.Q. 831, 837 (N.D. Ill., 1978); *Carolina Enterprises, Inc. v. Coleco Industries, Inc.*, 211 U.S.P.Q. 479, 488 (D.N.J., 1981). *Cf. Synercom Technology Inc. v. University Computing Company*, 462 F.Supp. 1003, 1015 (N.D. Tex., 1978); *Nik-Nik Industries, Inc. v. Walt Disney Productions, Inc.*, 194 U.S.P.Q. 108, 110 (S.D.N.Y., 1976); *Andre Matenciot, Inc. v. David & Dash Inc.*, 422 F.Supp. 1199, 1204-1205 (S.D.N.Y., 1976); *Fisher-Price Toys v. My-Toy Co., Inc.*, 385 F.Supp. 218, 223 (S.D.N.Y., 1974); *American Optical Co. v. Rayex Corp.*,

291 F.Supp. 502, 504-505 (S.D.N.Y., 1967), aff'd, 394 F.2d 155 (2d Cir., 1968).*

No New York State Court has ever ruled that recall is not a permissible remedy in appropriate circumstances. That no reported New York State case has ordered a recall of infringing trade dress is of no significance. As this Court has held, the United States courts, considering a claim based on state law, are not restricted to the remedies which the state courts have applied. See, *Guaranty Trust Company of New York v. York*, 326 U.S. 99, 105-106, reh. denied, 326 U.S. 806 (1945).

The argument that Acme should not be penalized for "acting in accordance with the District Court's order" (Petition at p. 7) misstates the facts. Acme acted after the May 19 Order was entered as it had acted before the Order, in disregard of the property rights of Perfect Fit. Notwithstanding the District Court's findings of fact that Acme had deliberately copied Perfect Fit's trade dress which it termed distinctive and memorable, and notwithstanding the pendency of Perfect Fit's appeal, Acme continued to engage in unfair competition. It proceeded at its own risk in these circumstances. The District Court's initial error of law cannot insulate Acme from the imposition of a remedy designed to terminate as rapidly as possible the likelihood of consumer confusion, deception and mistake created by Acme's deliberate misconduct. See, *Kiki Undies Corporation v. Promenade*

* Subcommittee C of Committee 205 (Unfair Competition—Trade Identity) of the Section of Patent, Trademark and Copyright Law of the American Bar Association in the 1982 Committee Reports (134) "considers recall a proper remedy in the appropriate circumstance and that this remedy is available to a court under its equitable powers to protect the public from confusion and the interests of competitors." (Exhibit 4, annexed hereto).

Hosiery Mills Inc., 308 F.Supp. 489, 493 (S.D.N.Y., 1969), on remand from 411 F.2d 1097, 1101. *Cf., Rea v. Ford Motor Company*, 560 F.2d 554, 557 (3d Cir.), cert. denied, 434 U.S. 923 (1977).

Harris Truck Lines Inc. v. Cherry Meat Packers Inc., 371 U.S. 215, 83 S.Ct. 283, 9 L.Ed.2d 261 (1962), relied on by Acme, is inapposite. That case did not hold that an erroneous ruling by a District Court can determine substantive rights, but dealt with the deference due a District Court's finding of "excusable neglect" under former Rule 73.

Any prohibition of recall as a discretionary remedy would encourage infringers to dump on the market or transfer title to infringing goods between the rendering of the decision and the entry of the injunction. These infringers would be secure in the knowledge that such goods may remain on the market for months or even years after a Court has ruled that the complaining party is entitled to injunctive relief to prevent likely confusion of the public and/or the trade. This result is unwarranted, particularly where, as here, the infringer has proceeded deliberately to copy its competitor's distinctive and memorable trade dress.

POINT III

There is no reason for review by this Court of the imposition of a contingent coercive fine as a remedy for willful contempt of Court.

Acme's third point in its Petition, the propriety of the punishment for contempt, rests on certain assumptions of fact with respect to Acme's finances which have never been subject to cross-examination but are subject to challenge, particularly with respect to Acme's alleged average daily earnings and alleged net profit.*

The factual situation in the case is more complex than indicated by Acme in its Petition. Acme had the power to avoid the fine entirely or end its accrual at any time, if it chose to, by complying completely with the Order of June 24, 1980.

Acme does and cannot challenge the law applied by the Court of Appeals. It only challenges the manner in which the facts of record were weighed by the two courts below (Appendix H to the Petition, A125-A132).

Acme seeks review of the unanimous decision of the Court below, by focusing on only one criterion of those previously enumerated by this Court in *United States v. United Mine Workers*, 330 U.S. 258, 303, 304 (1947). Both courts below carefully considered all the pertinent criteria in context. Acme in effect contends that the other factors must all be subordinated to the question of

---

* See the testimony of Acme's principal at the retrial of Acme's counterclaims, 794; 800; 816-820; 833-835; 841-844; 850; 1084; 1089 (Exhibit 5, annexed hereto). Acme's statement of income and retained earnings for the year ended January 31, 1979 lists a gross profit on sales of in excess of 3.1 million dollars, an increase over the previous year's gross profit in excess of .6 million dollars.

contemner's "financial resources", measured only by alleged net profits. Acceptance of this contention would preclude courts from fashioning effective sanctions where the contemner is either financially troubled, and/or where the contemner has so arranged its books that little net profit is shown. A closely held corporation, such as Acme, may have substantial continuous gross sales and significant financial resources, and show little daily profit. Daily net profit does not necessarily reflect the financial condition of the contemner more accurately than gross sales.

At the retrial of Acme's counterclaim, Acme's principal testified (T1089):

> "We have to keep in mind that while Acme Quilting Company, Inc. is a viable organization it is essentially a selling organization and how it does must take into consideration the operations of the manufacturing affiliates."

This Court has expressly found that in assessing punishment for contempt, the courts should in the exercise of discretion look to the "financial resources" of the contemner, *inter alia*. *United States v. United Mine Workers, supra*. There is no sound reason in law or logic to limit "financial resources" to net profits of a closely held company which has numerous related companies.

On the extended factual record developed in this proceeding, the result reached by the District Court and unanimously affirmed by the Court of Appeals is discretionary and eminently fair.

POINT IV

There is no reason for review by this Court of the protracted factual record because of frivolous allegations of a deprivation of due process by a petitioner which has enjoyed more than its day in court but is displeased with the results below.

There is simply no basis for the allegation in Point IV of the Petition that any of the rulings of the District Court affirmed by the Court of Appeals were "patently unfair". A complete refutation of the allegation, however, would entail an exhaustive review of a factual record created over a four year period and encompassing several lengthy appendices, numerous evidentiary hearings, and the testimony of numerous witnesses all observed by the same District Judge. Such a review would be inappropriate. *Cf., NLRB v. Pittsburgh S.S.Co.*, 340 U.S. 498, 502-503 (1951):

> "Certiorari is granted only 'in cases involving principles the settlement of which is of importance to the public as distinguished from that of the parties, and in cases where there is a real and embarrassing conflict of opinion and authority between the circuit courts of appeal.' The same considerations that should lead us to leave undisturbed, by denying certiorari, decisions of Courts of Appeals involving solely a fair assessment of a record on the issue of unsubstantiality, ought to lead us to do no more than decide that there was such a fair assessment when the case is here, as this is, on other legal issues. This is not the place to review a conflict of evidence nor to reverse a Court of Appeals because were we in its place we would find the record tilting one way rather than the other, though fair-minded judges could find it tilting either way."

Cf. Inwood Laboratories, Inc. v. Ives Laboratories, Inc., supra.

CONCLUSION

The Petition is addressed to the Court's discretion, and such discretion should not be exercised to review the decisions below.

Acme in its Petition presents no substantial federal question.

Acme in its Petition seeks to have this Court review rulings on discretionary matters without pointing to any abuse of discretion.

The only real question Acme raises in its Petition turns on the particular facts of this case alone, and is of interest only to the parties to it. In essence, Acme in its Petition has asked this Court to make a third review of the lengthy trial and post-trial record to see if it can find what two previous courts have been utterly unable to find, good faith by Acme sufficient to relieve it of the obligation to take appropriate steps to terminate the probability of confusion created by its intentional copying of Perfect Fit's distinctive and memorable trade dress. This Court has ruled that such fact canvassing is not a task to be served by a grant of certiorari. See, *United States v. Johnson*, 268 U.S. 220, 227 (1925). Moreover, in the realm of factual review and analysis, the rulings of the courts below are treated with and entitled to great weight.

For the reasons stated above, the Petition should be denied.

Respectfully submitted,

PERFECT FIT INDUSTRIES, INC.

By _____

ARTHUR H. SEIDEL
ROBERTA L. JACOBS
SEIDEL, GONDA, GOLDHAMMER
& PANITCH, P.C.
600 Three Penn Center Plaza
Philadelphia, Pennsylvania 19102
Tel.: (215) 568-8383

APPENDIX

EXHIBIT 1

**Appendix in Appeal No. 79-7329,
Pages A124-A129 and A175-A178**

[A00124] IRA KRAMER, called as a witness by the plaintiff, being first duly sworn, testified as follows:

Direct Examination by Mr. Seidel:

Q. What is your home address? A. 399 Ocean Parkway, Brooklyn, New York.

Q. What is your profession, Mr. Kramer? A. I am an artist.

Q. And have you worked for Acme Quilting, the defendant in this law suit? A. Well, did I design for them? Is that what you mean?

Q. Yes. A. Yes.

Q. And in fact did you design the J. board, Plaintiff's Exhibits 2 and 3, which I show you? A. Yes.

Q. And did you in fact submit this bill. Plaintiff's Exhibit 99, and this bill, Plaintiff's Exhibit 100, for this design work? A. That's correct.

Q. Could you tell us how you came to design these two J boards, Plaintiff's Exhibits 2 and 3? A. I was called by Acme to design a J board for a new [A00125] product.

Q. What did you do then? A. I made some sketches for the product. I saw what the J board was, which I had had no experience with before, and I designed the product around it.

Q. Were you given anything by Acme when you made the design initially? A. Initially, no.

Q. And were your initial sketches accepted by Acme? A. No.

Q. Were you then given a J board of the plaintiff exemplified by Plaintiff's Exhibit 1? A. I was shown that.

Q. And, having been shown Plaintiff's Exhibit 1, did you design Plaintiff's Exhibits 2 and 3? A. Yes.

Q. Plaintiff's Exhibit 2 has the word "Original" on the product. Whose idea was it to put that on the exhibit? A. It came from Acme.

Q. I show you the type font on Plaintiff's Exhibit 1. Did you consult BedSack's J board, Plaintiff's Exhibit 1, before doing this work? A. That's hard to say. It could have been a subconscious reaction from it.

[A00126] Q. And how about the art deco frame? Is this an art deco frame, by the way? A. You could call it that.

Q. It is a double frame, one being silver and the other being gold. A. The colors are incorrect. This is the reason it was never used, to my knowledge, the colors on PX 2.

Q. The colors appearing on PX 3 are correct? A. Yes.

Q. Which color is closer to PX 1, to your trained eye? A. This is closer PX 3.

Q. Had you, prior to seeing PX 1, ever seen a J board or any photograph taken from this angle? A. Yes.

Q. Let me finish. —showing a mattress cover on a mattress and a mattress cover on a pad? A. This is a new item. I have seen photographs of a bed in this angle on previous quilt covers that I purchased, myself.

Q. But you have never seen one covering both mattress and box spring, have you? A. I don't recall.

Q. Have you ever seen an insert for a mattress cover [A00127] having a double frame, as shown in PX 1 and PX 3? A. I can't say.

Q. PX 1 is die cut; in other words, it is cut right along the edge; is that right? A. That's correct.

Q. PX 3 is not die cut? A. That's correct.

Q. But is it made to simulate the die cutting by putting a white border around the frame? Do you have an opinion? A. No.

Q. Were you paid for the design of PX 3?

The Court: It's 2, isn't it?

Mr. Seidel: This is 3. This is the one they are selling in large volume.

The Court: It's 2 that was not used, then?

The Witness: That's correct.

Mr. Seidel: I think there were small sales, yes.

The Court: Well, we all said 3, and we are looking at 2.

Read the last question.

(Record read.)

A. Both of these designs were on one bill.

Q. And were they satisfied with this design? [A00128] A. They accepted it.

Q. And they were not satisfied with the earlier designs that you had prepared prior to seeing PX 1; is that correct? A. That's correct.

Mr. Seidel: I have no further questions. You may cross examine.

CROSS EXAMINATION by Mr. Roberts:

Q. Mr. Kramer, you said that Acme was not satisfied with the first designs? A. That's correct.

Q. Were you told why? A. Yes.

Q. Would you tell us why? A. They didn't meet the quality and the feeling that the BedSack J board insert had.

Appendix—Exhibit 1—Appendix in Appeal No. 79-7329, Pages A124-A129 and A175-A178.

Q. You said also you were given a package like PX 1. A. The BedSack is PX 1?

Q. Yes. A. I was given not the package, but I was shown the insert. I was not given it.

The Court: You mean the J board?

The Witness: The J board.

[A00129] Q. Were you only given the J board of Plaintiff's Exhibit 1? A. Yes.

Q. Were you given anything else at the same time? A. I was given a sample of Acme's product.

Q. And were you given samples of other art work? A. I don't know what you mean.

Q. Well, you were handed only the J board of Plaintiff's Exhibit 1, or were you given art work relating to other possible inserts? A. I was shown just J board 1.

Q. Were you asked to copy the J board of Plaintiff's Exhibit 1? A. The term was never used: copy.

Q. Was it suggested that you copy from Plaintiff's Exhibit 1? A. No.

Q. Did Acme's personnel ever inform you that they wanted to keep their own product distinguishable as an Acme product? A. Yes.

Q. How was this suggested to you? A. It was suggested by showing me all of the items that they had before, and I was given these as a sample

* * *

[A00175] which is in Plaintiff's Exhibit 3 and the J board which is in Plaintiff's Exhibit 2, which I show you? A. I don't know what you mean by did I arrange—

Q. Did you work with the artist, Mr. Ira Kramer, for example? A. Mr. Ira Kramer prepared the design. I ultimately approved it.

Appendix—Exhibit 1—Appendix in Appeal No. 73-7329, Pages A124-A129 and A175-A178.

Q. Did you have a number of meetings with Mr. Kramer? A. I had several meetings with Mr. Kramer, yes.

Q. Isn't it a fact that the initial designs which he gave you you didn't approve? A. That's correct.

Q. And then didn't you give him a sample of the plaintiff's J board, PX 1? A. No, that's not quite correct.

You want me to tell you how it came about?

Q. Yes, why don't you tell me your recollection. The Court has heard Mr. Kramer's statement. A. Mr. Kramer had been employed by Acme for a period of time and had produced a number of package designs for us and at the time we had somewhat of a library of our products, competitors' products and particularly [A00176] products in the domestic field. I believe all of that was available to Mr. Kramer and I believe Mr. Kramer used it in the preparation of his first couple of submissions.

We did at the time have at least one BedSack in the office and when I rejected Kramer's initial sketches and he asked me why, I said that they didn't express the meaning of the product or the intent of the product nearly as well as the BedSack, and I told Kramer that I would like him to get me or prepare for me an insert that would at least arrive at the quality of expression and perhaps improve the quality of expression of the product that was depicked on the BedSack, but I also told him at the same time to make sure that there were substantial differences so that they could be told apart, I didn't want any confusion between the Acme product and the Perfect Fit product.

Q. And that is your sworn recollection as to what happened with Mr. Kramer? A. Yes.

Appendix—Exhibit 1—Appendix in Appeal No. 79-7329, Pages A124-A129 and A175-A178

Q. Were you examined prior to this trial on February 21, 1978 by Mr. Joel Goldhammer of my office? A. Yes.

Q. Were you asked, at Page 58:

> "Q. In your meetings with Mr. Kramer was there any reference to the BedSack trademark? A. I don't recall.
>
> Q. Was there any reference to any of BedSack's advertising materials? A. I don't recall.
>
> Q. Did you discuss BedSack's J board? A. I don't recall.
>
> Q. Did you discuss the type of lettering that Perfect Fit was using for its BedSack trademark? A. I don't recall."

How come your memory is so much better today, which is eight months or seven months later, than it was on February 21, 1978? A. Well, I think you have recalled a number of questions, some of which are on point and some of which are not. So if you want to go over it item by item, perhaps I can give you an answer.

You listed about five questions and answers that I don't recall.

Q. Let's go over them again. You were asked:

> "Q. In your meetings with Mr. Kramer was there any reference to the BedSack trademark? A. I don't recall."

[A00178] Do you recall that now or don't you? A. Not particularly.

Q. (Reading)

> "Q. Was there any reference to any of BedSack's advertising materials? A. I don't recall."

A. Again, not particularly.

Appendix—Exhibit 1—Appendix in Appeal No. 79-7329, Pages A124-A129 and A175-A178

Q. But then comes:

"Q. Did you discuss BedSack's J board? A. I don't recall."

Just a few moments ago you said you showed this to Mr. Kramer and told him you wanted to make something that wasn't like that.

Now, which of these is accurate, what you said on Febrauary 21 or what you just said a few moments ago. A. They happen to be both accurate, even though they might seem strange. At the time I didn't recall. Mr. Kramer subsequently came in the office, he had done work for us, and I asked him and he asked me.

Q. You mean subsequent to February 21, 1978? A. Yes.

Q. And that's the reason you testified before, because he refreshed your recollection?

* * *

EXHIBIT 2

Appendix in Appeal Nos. 80-7489, 7585, 7587, Pages 196a-198a

[196a] of your senior partner. Here are the papers. I didn't have time to photocopy all the exhibits, but I know you have them.

The Court: The long and short of all this is you don't have the stay, is that it?

Mr. Levy: One other thing. Just as she was too busy preparing for this to appear on the stay application—and I may have a stay, I don't know, as of now, if I have it or not—

The Court: Your partner, Mr. Schindler—

Mr. Levy: He isn't my partner.

The Court: —your associate was here, and I was going to hear it, at five minutes to two.

Mr. Levy: He was here at two o'clock.

The Court: I said he was here at five minutes to two, and I was. He advised me he thought you were getting a stay. I gave him permission to go upstairs and see if you had gotten a stay. He came back and said you didn't have a stay but had left your briefcase in the clerk's office and wanted time to get that, and I gave him time to get that.

You are here now telling me you don't have a stay, you think you may have a stay, and this hearing was scheduled for two o'clock. It's now three o'clock.

[197a] Mr. Levy: If your Honor will not honor the request of the clerk of the United States Court of Appeals for the Second Circuit—

The Court: The point is that you were not here to proceed at two o'clock.

Mr. Levy: Because I was upstairs. I couldn't be in two places.

The Court: The point is you didn't have a stay at two o'clock.

Mr. Levy: I was there before two o'clock, and the clerk's office didn't have anybody there to deal with it.

The Court: You were due here at two o'clock in that situation because you didn't have an excuse not to be here at two o'clock. In the absence of a stay from the Court of Appeals, you were bound to be here at two o'clock and not have me sitting on the bench waiting for you to come down from the Court of Appeals when you got ready to come down.

Mr. Levy: Your Honor, Mr. Schindler is the attorney of record. He was here.

The Court: While we are on this I am going to adjourn it to 12:45 on Monday only because it is now three o'clock and I have another matter that has to proceed. [198a] That's the only reason it is not going forward right now, Mr. Levy.

You didn't have a stay from the Court of Appeals, and this was due to be heard, as I said, at two o'clock. You were not here. You still don't have a stay. So this hearing is simply adjourned until 12:45 on Monday.

In connection with this whole proceeding, you will recall when you were here the other day I said to you that your clients you now represent, Acme, have in the past caused delay in these proceedings that are really now bifurcated into an injunction hearing and a libel and slander action.

Appendix—Exhibit 2—Appendix in Appeal Nos. 80-7489, 7585, 7587, Pages 196a-198a.

You will recall I pointed out to you that on prior occasions Mr. Ratner, the head of this company, had failed to pay his attorneys, and I had granted them leave to withdraw.

Do you remember that, a discussion to that effect?

Mr. Levy: I remember that.

The Court: Now, I have the orders relating to that, and I am going to have them marked in connection with this and made a part of the record on this application for a stay which you made here.

EXHIBIT 3

Affidavit of Roberta L. Jacobs dated May 7, 1981

IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

PERFECT FIT INDUSTRIES, INC.,

Plaintiff,

v.

ACME QUILTING CO., INC.,

Defendant.

Civil Action No. 77-Civ. 2004 (CBM)

AFFIDAVIT OF ROBERTA L. JACOBS

Roberta L. Jacobs, being duly sworn, deposes and says as follows:

1. I am a member of the firm of Seidel, Gonda, Goldhammer & Panitch, P.C., counsel to plaintiff Perfect Fit Industries, Inc. in connection with the issues raised by the Complaint in this proceeding.

2. Subsequent to the entry of the Order of June 24, 1980 by this Court, and while appeal was pending from such Order, Arthur H. Seidel, and I attempted to ascertain the manner and extent of compliance by Acme Quilting Co., Inc. with such order.

Appendix—Exhibit 3—Affidavit of Roberta L. Jacobs dated May 7, 1981.

3. While some information was forthcoming from counsel for Acme Quilting Co., Inc., other information requested concerning compliance with the Order was not supplied.

4. Counsel for Acme Quilting Co., Inc. has refused to make his client available for deposition on the issue of compliance.

5. Annexed hereto as Exhibits A-G hereof are the following items of correspondence relating to efforts on behalf of Perfect Fit Industries, Inc. to ascertain the manner and extent of compliance by Acme Quilting Co., Inc., with the Order of this Court entered May 19, 1980, as amended by this Court's Order of June 24, 1980:

A July 11, 1980—From Arthur H. Seidel to Herbert Monte Levy

B July 21, 1980—From Herbert Monte Levy to Arthur H. Seidel

C August 26, 1980—From Roberta L. Jacobs to Herbert Monte Levy

D September 15, 1980—From Roberta L. Jacobs to Herbert Monte Levy

E September 24, 1980—From Roberta L. Jacobs to Herbert Monte Levy

F September 25, 1980—From Herbert Monte Levy to Roberta L. Jacobs

G September 30, 1980—From Herbert Monte Levy to Roberta L. Jacobs

Appendix—Exhibit 3—Affidavit of Roberta L. Jacobs dated May 7, 1981.

6. The legal costs necessarily incurred by Perfect Fit in prosecuting the contempt of this Court's May 19, 1980 Order through June 24, 1980 totalled $4,328.50. A breakdown of these costs by attorney, time spent and rate is annexed hereto as Exhibit H.

7. The legal costs necessarily incurred by Perfect Fit in connection with the contempt proceeding subsequent to the entry of this Court's Order Of June 24, 1980 through March 31, 1981 totalled $8,795.00. A breakdown of these costs is annexed hereto as Exhibit I.

ROBERTA L. JACOBS
Roberta L. Jacobs

State of Pennsylvania
County of Philadelphia } ss

Sworn to and subscribed before me this 7th day of May, 1981.

SHIRLEY M. BLOCK
Notary Public, Philadelphia Co.
My Commission Expires June 11, 19____

EXHIBIT 4

1982 Committee Report of Section of Patent, Trademark and Copyright Law of the American Bar Association, Page 134

205 Unfair Competition-Trade Identity

* * *

beyond the scope of the Subcommittee's assigned topic, those members of this year's Subcommittee who addressed the question also endorsed that concept. On the theory that half a load is better than none, however, the Subcommittee nevertheless endorses amendment of §43(a) in the more limited respect referred to in the Proposed Resolution, above.

SUBCOMMITTEE C. DOUGLAS W. WYATT,
Subcommittee Chairman

Subject 5. RECALL AS A REMEDY.

NO PROPOSED RESOLUTION.

Past Action. None.

Discussion. In the recent case of *Perfect Fit Industries, Inc. v. Acme Quilting Co., Inc.*, 646 F.2d 800, 210 U.S.P.Q. 175 (2d Cir. 1981), the Second Circuit Court of Appeals upheld the decision of the District Court for the Southern District of New York (484 F.Supp. 643, 203 U.S.P.Q. 481) that the defendant send recall letters as part of the relief in an action for unfair competition based on evidence that the defendant had intentionally copied plaintiff's trade dress, which was likely to cause confusion among customers.

The court cited with approval prior decisions ordering recall of offending mechandise. These include *Clairol, Inc.*

v. Shapiro, 328 F.Supp. 881, 158 U.S.P.Q. 427 (C.D. Cal. 1968), and *Kiki Undies Corp. v. Promenade Hosiery Mills, Inc.*, 308 F.Supp. 489, 164 U.S.P.Q. 117 (S.D.N.Y. 1969).

The Subcommittee considers recall a proper remedy in the appropriate circumstance and that this remedy is available to a court under its equitable powers to protect the public from confusion and the interests of competitors.

It is not seen that a resolution or other action concerning recall as a remedy is required by the Section of Patent, Trademark, and Copyright Law at this time.

Members approving Report:

Amend, James M.
Baber, Bruce W.
Benziger, Robert A.
Cislo, Donald M.
Dillon, Joan L.
Driscoll, Marie V.
Drobile, James A.
Ehrlich, David W.
Fetterley, Daniel D.
Fried, Stewart J.
Gerhart, Peter M.
Gertmenian, Russell M.
Gifford, Ernest I.
Hardin, Harry S.
Hennessey, Gilbert H.
Johnson, Jamie
Kaul, Donald A.
Kranzow, Ronald R.
Kunin, Louis
Lee, William M.
McAuliffe, Jeremiah D.
McCabe, Edward T.
McIlhenny, Edmund
O'Rourke, Thomas A.
Pierluisi, Jorge A.
Price, Bradford R. L.
Price, Griffith B.
Progoff, Susan
Rashopf, Robert L.
Renault, Phillips M.
Rodgers, Walter A.

Appendix—Exhibit 4—1982 Committee Report of Section of Patent, Trademark and Copyright Law of the American Bar Association, Page 134

Scagnelli, John M.
Shaw, Philip M.
Silver, Robert D.
Slonecker, Michael L.
Spath, Gregg A.
Stein, Irving N.
Turner, James E.
Wyatt, Douglas W.

Members not heard from:

Andrias, Richard T.
Bloom, Michael A.
Brezina, John C.
Carroll, Leo R.
Clair, Frank X.
Colbert, Clarence J.
Cooney, William J.
Crebs, P. Terence
Gottfried, Philip H.
Heftner, Laurence R.
Henderson, Kenneth L.
Hoyt, Nancy V.
Kaye, Harvey
Miller, James W.
Nation, Floyd R.
Turner, James E.
Wolff, Stephen S.

EXHIBIT 5

Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM), Pages 794, 800, 816-820, 833-835, 841-844, 850, 1064 and 1089

[794] yourself? A. We absorbed the additional cost; yes.

Q. Now, Mr. Rattner, you've heard a lot of testimony with respect to statements, the accusations made by Mr. Levine about Acme.

Has Acme been damaged, sir, as a result of that?

Mr. Gordon: I object, if your Honor please. It calls for a conclusion on the part of the witness. This is an issue for jury determination.

The Court: Yes, I'll sustain that. I assume you're going to evidentiary matters.

Q. Well, what has happened to Acme, Mr. Rattner, since March and April of 1977?

Mr. Gordon: I object, if your Honor please. It's far too broad to call for a specific answer.

The Court: Well, I think we all know where we are going.

Overruled.

A. In 1976, before these accusations were made, Acme enjoyed approximately 20 to 25 per cent of the mattress pad market in the country.

Ever since these accusations were made, we have—

* * *

[800] A. During the same period, '77, '78 and '79.

If we took $15 million and made it $29 million as a result of a lost market position and add the inflation rate of 30 per cent to that, we would have an additional $5 million in sales. So between the two, in 1979 our loss of

sales which I said was eight could have been as high as ten million dollars.

Q. And what would be the profit that would be lost by your company on a loss of sales of eight to ten million dollars?

Mr. Gordon: Objection, if your Honor please, what would be without any basis, without any function.

The Court: Sustained. You have to establish what the profit rate of this company is, two and a half or whatever?

Q. Could you answer that question? A. Thank you. We work on a markup of approximately 25 to 28 per cent. Inasmuch as our basic overhead would be covered by current sales, an increase in volume $10 million would have given us a minimum of $2.5 million profit.

Q. And that would be simply for the year—

Mr. Gordon: Your Honor, I move again to

* * *

[816] hasn't been laid through this witness for overcoming that.

The Court: Well, this witness adopts them as substantially accurate.

I will overrule the objection.

It will be received in evidence.

(Perfect Fit's Exhibit 16 was received in evidence.)

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

By Mr. Gordon:

Q. Now, sir—

The Court: Mr. Rattner, would you please hand me the exhibit?

The Witness: Yes, sir (handing to the Court).

The Court: Go ahead, Mr. Gordon.

By Mr. Gordon:

Q. Now, sir, I am going to ask you some questions and feel free to use Exhibit 16 if you need it to refresh your recollection. A. Thank you.

Q. What were the sales of Acme Quilting Company in its fiscal year ended 1976? A. $18 million.

Q. And on these $18 million in sales, how much in net profit did the company earn? A. Well, this figure here is incorrect. We [817] earned a net profit of about 170-odd thousand dollars.

Q. And you say that when the report sets it forth as $19 million, that's incorrect? A. $90,000.

Q. Excuse me, $90,000.

You say that they are incorrect? A. I believe what they have done—and I can't be certain of that. I believe that they have taken off the taxes paid. So the net profit before taxes as I recall, is somewhere around 170-odd thousand dollars. This must be net profit after taxes.

Q. All right. Well, if you make net profits, you pay tax on them, don't you?

The Court: Yes, Mr. Gordon.

Let's go on, please.

By Mr. Gordon:

Q. Now, Mr. Ratner, in your fiscal year ended January 31, 1980, what were the total sales of Acme?

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

Mr. Kreindler: I will object to the question with respect to comparing the fiscal year January 31, 1976 with 1980.

The Court: I will permit it.

Mr. Kreindler: That's a year and four months before the events took place.

[818] The Court: Mr. Kreindler, I understand. These figures are all in evidence. So they all may be referred to as any time.

A. $22 million.

Q. All right. Then what was the increase in the sales of Acme during that four-year period of time? A. They increased from $18 million in '76 to $20 million in '77, to $20 million in '78, to $22 million in '79, and to $22 million in 1980.

Q. So, did you have an increase of approximately $4 million in your sales over a four-year period of time? A. That's correct.

Q. And would you, as chief financial officer, Mr. Rattner, be able to calculate the percentage of increase in the Acme sales over that four-year period of time? A. Yes, I—

Mr. Kreindler: I will object. It is not a four-year period, it is a five-year period we are talking about.

Mr. Gordon: Correct. I will adopt that.

A. I would like to point out that you are talking about a period ending January 31, 1976—

[819] Q. Yes, sir. A. —which really related to our business in 1975, you are aware of that?

Q. Oh, yes. A. Oh, okay.

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

Q. And if it will make you more comfortable, make the comparison for the four-year period, from your fiscal year '76 to your fiscal year '79.

Was it increased in that four-year period—

Mr. Kreindler: '76 or '77?

Mr. Gordon: January 31, 1976, year-end, fiscal year, to January 31, 1979, year-end, fiscal year.

Q. Did Acme sales increase by $4,700,000? A. Yes, they did.

[820] Q. And does that represent a percentage increase in excess of 25 per cent, sir? A. That does, yes, sir.

Q. So your sales over that four-year period of time—withdrawn.

Now, as far as the net profit after taxes—

Mr. Kreindler: If your Honor please, I'm sure that Mr. Gordon isn't attempting to—

The Court: Mr. Kreindler, you can handle these things on redirect examination.

He's asking perfectly legitimate questions.

Mr. Kreindler: About periods that are not relevant. He's turning the periods around.

The Court: All right, you can argue that hereafter. That's overruled.

Go ahead, Mr. Gordon.

BY MR. GORDON:

Q. What was your net profit after taxes in the year-ended January 31, 1976, when you did $18 million in sales?

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

The Court: You can bring that out on redirect if you wish, Mr. Kreindler.

Mr. Kriendler: Yes, sir.

A. After taxes, $90 million—$90,000. I'm

* * *

[833] attributable to the adult mattress pads? A. Yes.

Q. Did you also have a couple of retail outlets? A. No.

Q. Do you have retail outlets now? A. No.

Q. Have you ever heard of two retail stores called Bedspread Warehouse down in Florida? A. Yes.

Q. Are they owned by Acme? A. No, sir.

Q. Are they owned by the same people who are the principals of Acme? A. Partly.

Q. Are you one of the owners? A. Yes, I am.

Q. This factory that Acme has in Hanover, Pennsylvania, that we have heard about, that's not owned directly by Acme either, is it? A. No, sir.

Q. But it's owned by the same people who own Acme? A. That is.

Q. Who are the owners of Acme Quilting? [834] A. I have two partners: Ephraim Young, Herbert Goldman and myself.

Q. And you each own one-third of the company? A. We each own one-third of the common stock, yes.

Q. And do you each own one-third of the company that owns and runs the factory in Hanover, Pennsylvania? A. We each own one-third of that company, yes, sir.

Q. And do you each one-third of the company that owns and runs the factory down in Tunica, Mississippi? A. Yes.

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

Q. Do you each own one-third of the company that owns and operates the bedspread warehouse retail outlets in Florida? A. No, sir.

Q. Do you own a portion of it? A. Yes, I own a portion.

Q. Does either Mr. Young or Mr. Goldman own a portion of those retail outlets?

Mr. Kreindler: Objection, your Honor. I don't know what this has to do with anything.

The Court: I will permit it. Overruled. You may answer.

A. Mr. Young, Mr. Goldman and I each own a portion of that.

[835] Q. And you have some other partner or partners? A. Yes.

Q. Is there a retail outlet at the plant in Hanover, Pennsylvania? A. Yes, there is.

Q. And is that owned and operated by another company besides Acme and the company that owns the plant? A. Yes. It is another corporation.

Q. Are you an owner of that corporation? A. Yes, I have a stock interest in that corporation.

Q. Do the bedspread Warehouse retail outlets in Florida and the retail outlets at the Hanover plant sell Acme manufactured products? A. Among others, yes.

Q. Are those products sold by Acme to those companies? A. Those products that they sell that are manufactured by Acme, yes, we sell those products to the stores.

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

Q. And do you include—excuse me.

When you provided the financial information to Dun & Bradstreet with respect to sales and profits for the various years, did you include in that information

* * *

[841] A. Yes, I am.

Q. So that would be substantially your fiscal year ended January 31, 1980? A. That's correct.

Q. Then, as I understand it, in that 1979 year that you have been talking about when your percentage of total sales represented by adult mattress pads declined from about 65 to about 61 per cent, your total sales volume went down several hundred thousand dollars, is that right? A. Approximately, yes.

Q. And your net profits went up from 40,000 to $69,000, is that right? A. I believe our profit that year was about $100,000 before taxes.

Q. Which year? A. The year ending January 31, 1980.

Q. And what about the prior year where the statement shows $40,000, what was your net profit then? A. I believe it was higher than that. I think it was—I can't recall exactly, but it was sixty or so. I can't recall at the moment.

Q. You did pretty well with respect to the following year? A. I am a little nervous now. I have to admit [842] my memory isn't quite as good. I probably will get to it before we finish.

Q. '76, when it was 90,000, you said it was actually about 170? A. 170-odd thousand, yes.

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

Q. '77 where the statement shows a profit of 89, would you say the profit before taxes again was about 170? A. I believe it was around 150 or a little less.

Q. And in the year ended January 31, '78, when the net profit reported was 92,000, again was the profit before taxes larger? A. Isn't that the year we are talking about? We are talking January 31, 1978?

Q. Yes. The statement shows—

The Court: Calendar '77 is what we are talking about.

Q. Look at the front page of Perfect Fit Exhibit 16, the April 30, '79, statement. A. Okay. We are talking in January '78, I believe our profit before taxes was approximately $150,000.

Q. And after taxes it was $92,000? A. That's correct.

Q. And the following year when it was 40,000, you [843] say it was about 60, is that right? A. Well, as long as we are here I will see if I have any other figures.

Yes, that would be it roughly.

Q. You just looked at something that refreshed your recollection? A. No. I was just thinking about it.

Q. So that in that year, what you would call 1978, the one ended January 31, 1979, you actually— A. That's correct.

Q. —had these profits on sales of about 60 and the statement shows 40 after taxes? A. You know, I think that our profits were lower than that. I think that they were—they were considerably lower than that, and I can't recall.

Q. Considerably lower than what? A. Lower than the 40. I think that they were perhaps around 25,000.

Q. You just looked at the June 11, 1979, report, page 2, didn't you? A. Mr. Gordon, I might have looked at anything, but I am just recalling that our profits were in that area of about $25,000 that year.

Q. As a matter of fact, the statement shows net [844] profits of $40,750, doesn't it? A. Which statement is that? On January 31, 1979, there is—it shows a profit of $40,000, that's correct. That's after taxes.

Q. After taxes? A. Yes.

Q. And what was your net profit that you earned from the operation of the business before taxes for that year? A. It was about $25,000. In other words, I believe we had a tax refund that year.

Q. You made $24,189 in net income on sales of $22,700,000 right? A. Yes, sir.

Q. And your statement shows a net profit after taxes of $40,000 because instead of paying taxes you got a tax credit? A. That's correct.

Q. Isn't that a tax credit that carried over from year to year? A. Isn't that a tax credit that carried over?

Q. Yes, sir. Didn't you have a tax credit in your prior fiscal year that ended January 31, 1978?

* * *

[850] Q. Yes. Make it "Estimated profits before taxes paid or refunded."

Would that be more accurate? A. Estimated operating profit before taxes?

Appendix—Exhibit 5—Trial Testimony from the Re-trial of Acme's Counterclaims in Civil Action No. 77 Civ. 2004 (CBM) Pages 794, 800, 816-820, 833-835, 841-844, 850, 1084 and 1089.

Q. All right. A. Okay.

Q. Now, for that first year what would that number be? A. I don't recall.

Q. All right. Do you want to put a question mark there? A. All right.

Q. How about for the second year? A. Approximately 174,000.

Q. Do you want to enter that in there? A. All right.

Q. What about the next year? That's your 1977. A. Approximately $150,000.

Q. And how about for the following year? A. Approximately 25,000.

Q. And now we come to your 1979. A. Approximately 100,000.

Q. Thank you.

* * *

[1084] A. I think that's a fair statement. A lot of people use that. Yes.

Q. So when you subtract cost of goods sold from your net sales, you get your gross profit, which is the thing you referred to as 25 to 30 per cent? A. Yes.

Q. Would you take a look at one of your Dun & Brandstreet reports to this exhibit—would you take a look at the one dated June 11, 1979, page 2? A. Financial statement?

Q. Page 2. That's the one that shows the summary of your profit and loss statement. A. Yes.

Q. Do you see where it says net sales, 22,700,000-some-odd? A. Yes, I do.

Q. The cost of goods sold, 19,570,000? A. Yes.

Q. And a gross profit of 3,174,000, in round numbers? A. Yes, I do.

Q. Does that represent a 14 per cent gross profit on sales rather than a 25 to 30 per cent gross profit?

* * *

[1089] statement that you handed me, part of Exhibit whatever it is in evidence—

Mr. Richards: 13.

Q. —and tell me whether that is the same number they have in the report?

Mr. Kreindler: I object to this.

The Court: I will sustain the objection.

Q. Tell me what figures they transposed or changed or put into a different place in the Dun & Bradstreet report as opposed to in your financial statement.

The Court: Overruled.

A. Mr. Gordon, it will require a little explanation, if I can give it to you. May I?

The Court: Certainly. Tell him what it is. Do you need the two reports?

Q. Do you want to look at your statement compared to the report? A. No, I am familiar with how they are made up. The particular financial statement you have is on Acme Quilting Company, Inc. We have to keep in mind that while Acme Quilting Company, Inc., is a viable organization, it is essentially a selling organization and how it does must take into consideration the operations of the manufacturing affiliates.

Office - Supreme Court, U.S.
FILED
JUL
ALEXANDER L. STEVAS,
CLERK

No. 81-2234

IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

ACME QUILTING CO., INC.,

Petitioner,

vs.

PERFECT FIT INDUSTRIES, INC.,

Respondent.

PETITIONER'S REPLY MEMORANDUM

HERBERT MONTE LEVY

Attorney for Petitioner

Suite 1800
18 East 41 Street
New York, New York 10017
(212) 889-4985

(12553)

IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

ACME QUILTING CO., INC.,

Petitioner,

vs.

PERFECT FIT INDUSTRIES, INC.,

Respondent.

PETITIONER'S REPLY MEMORANDUM

The only points not previously discussed in Petitioner's Petition for Certiorari which need be made at this time are as follows:

1. Perfect Fit inaccurately contends (p. 10) that the Petition was filed out of time with respect to the first opinion of the United States Court of Appeals for the Second Circuit. Since that decision remanded the case to the District Court, it was not final, and this Court would have not had jurisdiction to review. The interlocutory decision became final only when the second opinion of the U.S. Court of Appeals for the Second Circuit was handed down. The Petition was timely filed within 90 days thereafter.

2. Perfect Fit argues (pp. 8-9) that the *Ives* cases are applicable because the issues presented in the petitions there and the issues actually reached by this Court therein are not involved here. While Perfect Fit correctly recites that this Court did not reach the issue involved herein in its June 1, 1982 decision, a reading of the opinions of the Court of Appeals in those cases makes it quite clear that the issue presented by us was one subsumed in the questions presented, and hence was before this Court, albeit that this Court remanded on that aspect of the case.

3. Perfect Fit has seen fit to annex as an Appendix excerpts from the record below. The same, of course, is not allowed by the Rules of this Court. Moreover, it is an attempt to prejudice the Court by unfairly taking selective excerpts from the voluminous record below. Petitioner, on the other hand, has limited the issues raised by it, and the facts presented, solely to the facts as found by the District Court, and as commented upon by the Second Circuit. We shall not supply selective excerpts on our part from the record below, for to do so would merely compound Perfect Fit's violation of this Court's Rules.

Respectfully submitted,

HERBERT MONTE LEVY
Attorney for Petitioner

Dated: New York, New York
July , 1982